

Town of Nantucket

*Organization Review
of the
Finance Department*

*Interim Review of Implementation of
September 2008 Recommendations*

August 2009

THE ABRAHAMS GROUP

YOUR PARTNER IN PERFORMANCE

August 20, 2009

Ms. C. Elizabeth Gibson
Town Manager
Town Hall
16 Broad Street
Nantucket, MA 02554

Dear Ms. Gibson:

I am pleased to submit the attached Interim Review of Implementation of the Organization Review of the Nantucket Finance Department Report.

We look forward to working with you to continue implementing stronger internal controls.

Sincerely yours,



Mark D. Abrahams, CPA
President

Attachments

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INTRODUCTION

The Abrahams Group issued an Organization Review of the Finance Department in September 2008. The report consisted of 36 major recommendations dealing with internal control weaknesses, workflow and operations, and organization and staffing. To implement these recommendations, two plans were developed. Phase 1 focused on the sixteen (16) priority recommendations generally relating directly to the Finance Department. Phase 2 focused on the ten (10) priority recommendations generally relating to Town Administration and Human Resources. The remaining 10 recommendations have yet to be addressed. These plans were deferred until the FY 2008 audit was completed, the 2009 annual town meeting was completed, and progress was achieved on the Phase 1 and 2 plans.

This report presents the status of the Phase 1 and 2 implementation plans as reviewed by The Abrahams Group in June and July 2009. It is organized by phases. The objective of this report is to provide an independent assessment of the implementation status. Generally, the Finance Department has implemented several of our recommendations since this time last year. The Town has also completed outstanding audits and other requirements consistent with their timetable as reported to and acknowledged by the Department of Revenue.

Our major concerns were focused on the causal factors of the inefficiencies, ineffectiveness, lack of controls, procedures and the like relating to 1) cash reconciliations, 2) accounts receivable reconciliations, and 3) internal controls. With respect to the reconciliations, the Finance Department has made progress and has targeted September 30, 2009 to provide the independent auditors with FY 2009 reconciliations for the FY 2009 audit. With respect to internal controls, the Town Assessor, Collector and Treasurer's staffs are posting transactions to the general ledger. We believe the Controller or his staff should post the general ledger. MUNIS is a batch processing system whereby the Assessor, Collector and Treasurer can enter data in batches, which can be reviewed by the Controller or staff, and then posted to the general ledger. This in our view provides the highest level of internal control. Our recommendations are focused to provide a high level of internal control. Anything short of these criteria may impair the integrity of the general ledger. The Finance Department has specifically discussed the phased in implementation of posting authority in the following order: Treasurer, Treasurer's receipts, Collector's office, and Assessing. An implementation plan needs to be developed for these changes that corrects internal control deficiencies in a coordinated manner so as to eliminate them and not with a sequential approach that creates new internal control deficiencies.

The Abrahams Group did not audit the activities or reports related to these recommendations, and accordingly, do not express an opinion on the results.

IMPLEMENTATION- PHASE I RECOMMENDATIONS**Recommendation #1****Removal of Posting Authority from Treasurer**

Status: Partially implemented. Intent of recommendation was not achieved and internal control weaknesses continue.

Discussion: The fundamental intent of this recommendation was to assure a sound segregation of duties and to not allow any one position (Treasurer identified in report) to have a combination of duties that were an internal control risk and provided the potential for fraud. Controls had to be put in place and posting authority had to be vested with the Controller's Division.

The posting authorities were removed from the Treasurer. However the assistant to the Treasurer then posted cash receipts as well as processed the receipts and prepared the bank deposits. The ability to process cash and checks, make bank deposits and post to the general ledger continues a fundamental internal control weakness.

The Finance Department has specifically discussed the phased in implementation of posting authority including the Treasurer's Office. Changing this particular area of posting will require workflow and procedural changes. An implementation plan will need to be developed for the phase in of these changes.

The Abrahams Group should monitor the progress on this (and other related recommendations). When it is clear that the redesign satisfies internal controls, segregates duties, and assures workflows and reviews that will promote and assure the integrity of the general ledger, then the overall MUNIS access and authorities for the Finance Department should be revised by the IT Director.

Recommendation #2**Need for independent reporting of receipts and collections to the Accounting Officer**

Status: Implemented

Discussion: Our report identified that an independent copy of the *Departmental Payments to the Treasurer* and the *Collector's Turnover to the Treasurer* did not go to the Accounting Officer, who is the responsible party for recording all activity on the general ledger. This is the basis of an assurance of "checks and balances" between the general ledger and the cashbook.

The Collector sends a separate copy of the Turnover to the Controller's Division. Most departments send a copy of their turnover to the Controller's Division.

The Treasurer's Office prepares a cash receipts packet that includes the department turnover sheets. The Controller's Division then matches their copies of the turnovers to the copies received by the Treasurer's office to assure there are no discrepancies. A DNR (did not report) list is generated identifying the departments that did not forward a turnover to the Controller's Division. The Controller's Division contacts these departments. It is important that the Controller and each department head assure that respective staff complies with this dual reporting requirement.

Recommendation #3

3. Need for Treasurer's office to provide receipt for cash/checks at the time of delivery of the funds

Status: Partial Implementation –Departments
Partial Implementation – Collector's Turnovers

Discussion: Our report had discussed that "the Collector's office and many departments of the Town turnover cash and checks to the Treasurer's office for deposit in the bank". Since a receipt was not provided in many instances, it presented a risk when the cash/checks are counted later in the day that there may be an issue in terms of what was actually turned over. In addition, there was no signed evidence by the Treasury staff of what was turned over to them.

The Treasurer's office has begun to implement the recommendation with respect to the various departments that turn over checks and cash. Collector's receipts are turned over to the Treasurer with a bank deposit slip (prepared by Collector's office) and are immediately deposited (Treasurer's Receipts clerk picks up the deposits at the Tax collector's office and goes to the bank).

Recommendation #4

Internal Control weakness based on job design for abatement entry and payment entry to accounts receivable system.

Status: Partially implemented. Intent of recommendation was not achieved and internal control weaknesses continue.

Discussion: In 2008, the Collector's staff had authority to post payments, post abatements and release refunds, which is a serious internal control weakness as the same person should not be able to apply payments and to abate the receivable. Moreover, only the Accounting Officer (or designee) should have authority to post abatements to the general ledger based on review of relevant source documentation.

The abatement entry and posting has been removed from the Collector and vested with the Assessor's Office. Our recommendation stated that only abatement entry to MUNIS should be transferred to the Assessor's staff and that all abatement posting (real estate,

MVX, Personnel property and boat excise) must be an authority and role of the Controller's Division in order to assure adequate internal controls, review of the vote of the Board of Assessors specifying the abatements by taxpayer, and only then independent posting by Controller's Division to the general ledger in order to maintain the integrity of the general ledger (receivable and overlay). In order to achieve the internal controls recommended in our report, the posting authority should be removed from Assessors staff and the design plan for Abatement Review and Posting Authorities should be implemented within the next thirty days.

With respect to the Collector, the objective of our recommendation is to allow the Collector's office to be able to enter the work in MUNIS, but someone in a control function (Controller) must review the batch and source documents and then post to the general ledger. The Collector processes about \$60 million of real estate, Personnel property, motor vehicle, community preservation, liens, betterments, and other committed receipts, of which about \$36 million are lock box or on-line payments that are directly deposited into a bank. The Collector's staff has permissions and posts these payments to the general ledger. About 1,000 of these postings were processed between the period January 1, 2009 and May 6, 2009. The Assessor now prepares the abatement entry instead of the Collector.

The Collector posts these payments to a general ledger cash turnover account, a clearing account recommended by the previous independent auditor to "hold" the payments until these payments are reviewed by the Controller's Division. The Collector's Office prepares a daily turnover sheet for each batch, and transmits the turnovers to the Treasurer's Office, who posts the receipts to the cashbook. A copy of the turnover is transmitted to the Controller's Division, which reviews each posting. Once the Controller's Division reviews these payments, they will transfer the cash in the turnover account to the proper general ledger cash account. Thus, the Controller's Division reviews the Collector's postings.

The question here is does the current process provide sufficient internal control? We think the Town would have greater internal control if our recommendation were to be implemented.

Greater internal control can be achieved once the Town redesigns workflows and procedures and changes the posting authority to have the Controller or designee (on Controller's staff) post the general ledger consistent with our previous related comments.

To reiterate, our report recommended all posting of all transactions be a function of the Controller's Division. MUNIS is a batch processing system. The Controller or designee should post the pending batch (created by the Collector, Assessor or Treasurer) to the general ledger to assure the integrity of the general ledger.

Recommendation No. 5

Transfer all bank accounts that are not under the custody of the Treasurer to the Treasurer's custody

Status:

1. Implemented Recommendations for Collector/Deputy Collector's Bank Account and Payment Process
2. Have not Implemented Recommendation for Town Clerk's Bank Account

Discussion:

The Collector and Deputy Collector (a vendor) have been removed as the signatories for this bank account. The bank statements no longer are sent to the Collector. The bank account for the deposit of the Deputy's collections is now under the custody of the Treasurer.

The practice of paying the Deputy Collector from the checking account outside of the warrant process has ceased. The Deputy now invoices the Town as a vendor for fees due him. The invoices are paid through the warrant process after review by the Controller's Division and authorization on the warrant with all approval signatures.

This recommendation also noted that the Town Clerk's checking account had not been closed (was not part of the Phase 1 or 2 implementation plan). This allows the deposit of receipts to a bank account that is not under the custody of the Treasurer and it allows the issuance of checks outside of the warrant process without associated controls. In addition, the Treasurer does not receive the bank statement and cannot reconcile this bank account.

Recommendation #6

Submittal of Cash Register Tapes (Proof of Sales) for Major Turnover

Status: Implemented "Evidence of Sale" documentation for School Lunch
Reviewing other areas with "Significant Sales/Cash Activity"

Discussion:

The Controller's Division now receives documentation of sales for the school lunch program. This is submitted with the Turnover Report.

The Finance Department has done a review of "sales" activity in other departments in order to consider improved documentation to accompany the turnover of some other non-committed receipts. This review is ongoing and has been updated since our last review. It was our intent that areas with sales and cash activity such as beach stickers and

community schools initiate control mechanisms to assure all cash is turned over for deposit and for recording on the general ledger.

Recommendation #7

Eliminate practice of sharing a “cash drawer” in the Collector’s Office

Status: Partially Implemented

Discussion: Our report identified that three staff in the Collector’s Office use the same “cash drawer” for all cash and check transactions, which does not assure accountability in the event of discrepancies in the amount of cash in the drawer.

The Collector procured the two cash drawers but they have not been used. The reason is that they have not been “funded” with petty cash such that all three drawers will have \$125 for change, etc. We recommend that \$250 from collections be identified as “cash on hand” and retained to fund the two new drawers so they can become operational.

Recommendation #9

Finance Department must have signature authority of PAFs and Town should institute “Personnel Requisition form”.

Status: Implemented Personnel Requisition Form
Implemented Finance Department Review and Approval of Personnel Action Forms

Discussion: The intent of the *Personnel Requisition Form* was to assure that no recruitment or advertisement for a position would occur without completion of the *Personnel Requisition Form* to be signed by the Finance Department as evidence of budgeted funds for an authorized and funded position. The purpose of the *Personnel Action Form* and addition of the Finance Department as an approval signature is to assure that the salary increase/adjustment is provided for in the budget and represents a certification of funds for the pending personnel action.

Seven samples were randomly selected to test the use of the *Personnel Requisition Form* and the Personnel action form. Of the seven, three were full time employees and four were seasonal employees. Our review of actual *Personnel Requisition Forms* indicated that for all recruitments the requisition form was utilized and signed by the Finance Department prior to recruitment of the position. The *Personnel Requisition Form* is not used as part of the seasonal hiring process. Of the four seasonal employees, three of the new *Personnel Action Forms* (with a signature block for the Finance Department) were signed by the Finance Department; one was not. The form that was not signed was an old form, which does not have the signature block. The source document does not reside in HR as the policy is still in “draft”. The source documents reside in payroll. The Town should continue to make progress with these forms.

Recommendation #10

Assure appropriate written authority and understanding of collective bargaining documents and disbursements

Status: In Progress=

Discussion: Several Town initiatives are in progress relative to this recommendation.

1. On June 10, 2009, the Town transmitted to us the MOA for the DPW union.
2. On June 16, 2009, the Town transmitted to us verification that the new collective bargaining process had been implemented for the Laborer's MOA.
3. On July 2, 2009 the Human Resources Director transmitted a draft documenting contract negotiations, memorandum of agreements, collective bargaining agreements, and side letters.

The Town should finalize these procedures to fully implement this recommendation.

Recommendation #11

Assure correct payroll authorizations

Status: Implemented as of July 19th

Discussion: The Finance Department has developed new procedures to assure that each payroll is appropriately authorized by the department head (or designee in event of absence). The MUNIS Earnings Worksheet, which is the document that represents the final verification of accuracy prior to the processing of payroll checks, now contains approval certification language, the signature of each department head who is responsible to attest for the hours worked, and the date signed/approved. In addition, a board action was scheduled for approval of a list of "department head designees" for purposes of payroll reporting.

We requested to see three *Earnings Worksheets* for the pay period ended July 19, 2009, Police, Public Works, and Town Clerk. The Finance Department has submitted the signed *Earnings Worksheets* for Public Works and Police for the pay period ended July 19, 2009, which was signed by the respective department heads. The Finance Department has submitted the worksheets for the Town Clerk, which was signed by the Assistant Town Clerk.

Recommendation #17

Eliminate Duplication in Recording Abatements

Status: Town officials have made a decision not to implement this recommendation.

Discussion: The Assessor's office appears to have effective processes in place in terms of sound documentation that is recorded with care through manual processes on manual certificates and in manual logbooks. However there is a duplication of effort within the Assessor's office manual logs and records and the subsequent recording of the same data/information within the MUNIS financial management system, which is inefficient. Our finding specifically applies to the dual recording of real estate and personal property abatements, real estate exemptions (veterans, surviving spouse etc) as well as to the dual recording of motor vehicle abatements. The Town would like to continue this dual processing. For reference, some control issues regarding abatements were discussed under Recommendation No. 4.

Recommendation #18

Immediately implement formal monthly reporting to Audit Committee as evidence of monthly cash reconciliation

Status: Partially Implemented

- (A) Present "Current Month" Reconciliation and understand that Initial Balance will not be correct since FY 2008 has not been reconciled - Implemented
- (B) Use town's current reporting form (transition to The Abraham's Group Recommendation in early calendar year 2009) - Not Implemented
- (C) Submit Reconciliations signed by the Treasurer and the Accounting Officer by the 30th of the Month - Partially Implemented

Discussion: A major issue facing the Finance Department is the reconciliation of cash and accounts receivables. This has been a significant finding by the Town's independent audit firm.

Cash Reconciliation

Our recommendation focused on implementing monthly reporting on cash reconciliations to the Audit Committee and to use a reporting format that would allow the Audit Committee to see related cash reconciliation activity. The Town has partially implemented our recommendation. Monthly cash reconciliations are performed and submitted to the Audit Committee. The date agreed to by the Audit Committee and the Finance Department is the Audit Committee meeting in the second month following the month being reconciled. This is a major improvement considering that the reconciliation process did not begin until several weeks or months after the close of the fiscal year.

The reconciliation provided to the Audit Committee documents the reconciliation of the general ledger cash to the Treasurer's cashbook. These reconciliations do not however report the Treasurer's reconciliation of the cashbook to the bank balances, as formatted in Appendix C to our 2008 report. Nor do the Controller and the Treasurer sign the reconciliation report as an attestation of the reconciliation to the source documents.

We reviewed the cash reconciliation for March 2009. Generally, the Treasurer's cashbook was reconciled to the bank statements for the month of March. However, the vendor and payroll accounts (old and new) for the Town and County were not reconciled to the bank, and the Controller's schedule of reconciliation did not reconcile the cashbook to the general ledger (monthly activity was reconciled, the balances were not.) The Finance Department is targeting reconciling cash and accounts receivables by September 30, 2009.

Accounts Receivable

The accounts receivables are reviewed monthly. This is a major improvement considering that the reconciliation process did not begin until several weeks or months after the close of the fiscal year. The Finance Department has submitted the FY 2009 accounts receivables reconciliation to the independent auditors. However, several accounts receivable issues remain.

The basic issue is that the Town does not maintain receivables on the General Ledger for several activities/utilities. Refer to Recommendation #20 for further detail.

Generally the real estate, personal property and motor vehicle excise taxes are reconciled based on the reports provided to us. Boat excise, landfill and Our Island Home are not reconciled and need further work.

Abatements are posted to the general ledger by the Assessors Office. Abatement forms are approved by the Assessing Department by using a signature stamp, which leaves open the possibility that anyone with access to the stamp can effect abatement to any tax or excise receivable. Only original signatures should be acceptable to insure the document bearing an official's signature has actually been in that person's hands. We have commented previously that the Controller's Division should be posting to the general ledger and we have further noted that the Finance Department is planning to change the posting procedure consistent with our recommendation.

In addition, the Finance Department has prepared monthly accounts receivables reports. The Audit Committee did not receive this monthly accounts receivable report until July 2009 for the period ending June 30, 2009.

In summary, with respect to "Cash" and to "Receivables," the original source documents should be forwarded timely to the Controller and the Controller should post to the general ledger. The Treasurer should initiate reporting of the monthly reconciliation of the cashbook to the bank statements to the Audit Committee, as the second component of evidence to the Audit Committee that the cashbook reconciles to the "Bank" and in turn the Controller's reconciliation to the cashbook is sound. The Audit Committee would have evidence that the cashbook agrees to the bank.

The Audit Committee should continue to receive the monthly accounts receivable reconciliation report in order to assure accountability.

Recommendation #26

Facilitate on line access to bank accounts to departments

Status: Implemented

Discussion: The Wannacomet Water Department and the Airport have indicated that they have online access to their respective bank accounts.

Recommendation #33

Need to assign clear responsibilities and accountabilities to the “Accounting Officer” and to the Controller.

Status: In Progress

Discussion: Many of the findings and recommendations of the September 2008 report focused on the need to provide improved controls, and review process and workflows within the accounting and control function. We recommended the removal of the Director of Finance from certain activities to allow more focus on accounting and internal control. A full time controller also staffs the accounting activity. It is important for the town manager to have a clear delineation of the role and responsibilities of the Director of Finance/Accounting Officer (per Town Code) versus the role and responsibilities of the Controller for purposes of clarification and accountability.

The Finance Director has submitted an outline of primary duties between the Finance Director/Accounting Officer and the Controller for budgeting, town meeting preparation, debt service, accounting, capital projects, fixed assets, reconciliations, audit, financial reporting, and other topics. This outline has been discussed with the Controller.

Recommendation #35

Appoint an Assistant Treasurer pursuant to MGL Chapter 41, Section 39A.

Status: Not Implemented

Discussion: A major entity as the Town of Nantucket must have someone designated immediately that can sign a check in the absence of the Treasurer. MGL requires that the Treasurer appoint the Assistant Treasurer, subject to approval by Board of Selectmen. The Treasurer’s choice for the position has been out on medical leave. Our recommendation is that the Treasurer should appoint an Assistant Treasurer immediately.

Recommendation #36

Assignment of Additional Responsibilities to Executive Assistant

Status: Implemented

Discussion: Our recommendation on this position was developed when the Executive Assistant to the Finance Director was a very new employee, The Accounting Clerk was a very new employee, the Accountant position was vacant (now filled), and the part time former accounts payable clerk / back up had just left employment. We recommended at that time that this position be trained as a back up position for review and processing of the accounts payable warrant as well as for review and processing of the payroll warrant under the oversight of the Controller. These are two fundamental and essential functions that must be performed every week. The Accounting Clerk now provides back up for payroll and accounts payable.

Thus, the duties as described in the initial job description for the Executive Assistant have not changed substantially; they have grown with the addition of more committee work, and with some committees meeting more frequently than in the past. This position has taken on more administrative function than we originally anticipated.

IMPLEMENTATION PLAN – PHASE II

Recommendation #8

Transfer Entry of MUNIS Personnel Actions/ Transactions to Human Resources Department

Status: Some progress has been made, implementation will occur after hiring of administrative assistant position in the human resources department

Discussion: The Finance Department and Human Resources Department have held meetings and are working in conjunction to transfer the functions to the Human Resources Department in order to improve internal controls and to focus Treasury staff on reconciliation of the bank statements to the Cashbook on a current basis.

Recommendation # 12

Centralize MUNIS Control of “New Vendor” set up in one position in Town Manager’s Office

Status: Progress has been made; Actual removal of MUNIS authority from several town staff has not been implemented as of July 20th.

Discussion: As of mid July, staff is attending training sessions to learn MUNIS requisition, purchase order processes and approvals. The intent is to remove MUNIS access and authority from the several Town departments that have this access. Three employees in the Town Manager’s Office have been designated for MUNIS access and authority in order to control the creation of new vendors to only those who are valid vendors consistent with a sound procurement process.

In the near future departments will be informed of the new procedures and MUNIS access will be removed from various staff in town departments.

Recommendation #14

Require “Receiving Reports” for materials, goods, and equipment

Status: Completed. Procedures and Standards have been written and distributed to all departments for implementation since February 2009. Note that the actual use of the Receiving Report and assuring it has been submitted to the Controller’s Division should be reviewed in the near future.

Discussion: The distribution and recent implementation of the new procedures is an important improvement in controls. As a verification of successful implementation of the new process, either the Town or The Abrahams Group should review several payments for materials, goods and equipment to assure that the receiving report is on file in the Controller’s Division and that it was submitted prior to inclusion of the payment on the warrant.

Recommendation #19

Report all balances due on MLCs

Status: Partially Implemented

Discussion: The intent of the recommendation was to assure that all balances, including water and sewer are reported on each municipal lien certificate (MLC) issued by the Collector’s Office in order to assure that the Town protects its rights in the future to claim delinquent water and sewer balances.

It requires training the Collector’s staff in the Wannacomet receivables software, providing query access to the Collector’s staff and timely posting of all activity by Wannacomet staff to assure the receivable balances are current. Collector’s staff has access, has had some training, but needs additional training. The Finance Department needs to work with Wannacomet Water staff to develop revised procedures to address this issue.

Recommendation #20

Record all Receivables (Summary Level Transaction) on General Ledger

Status: In Progress

Discussion: The Wannacomet and Airport commitments, supplemental billings/commitments, and abatements are not submitted to the Controller’s Division for recording on the general ledger. The Sewer and Siasconset water commitments and

receipts are received by the Finance Department. The area that still needs to be addressed for these two enterprise funds is the abatements and billing adjustments. As such the receivable balances are not accurate or simply do not represent the true “receivable”.

We note that Wannacomet provided commitment information for the last month of FY 2009 but without ongoing source documentation of monthly billings/commitments, supplemental billings, and abatements, the general ledger does not reflect accurate receivable balances and reconciliations are not possible.

Recommendation #22

Hire one audit firm to Audit all Town Funds and Prepare GAAP Financial Statements

Status: Implemented.

Discussion: The Town has negotiated with Powers & Sullivan to perform an audit and prepare GAAP financial statements of all Town funds (including the Airport enterprise fund and the water and sewer enterprise funds) for FY 2009. The Airport and the Water Company have been part of the annual audit. Changes were made three years ago so that Powers & Sullivan began doing original audit work on these two Enterprise funds, instead of relying on the Burke & Lamb audit report for information. Change made for the 2009 – 2011 report is for Powers & Sullivan to provide separate audit reports for the Wannacomet Water Company and the Airport, instead of Burke & Lamb.

Recommendation #27

Formalize and Document Indirect Cost Methodology for Sewer Utility, Wannacomet Water, Siasconset Water, and Airport.

Status: **Wannacomet Indirect Cost Allocation: Implemented**
Airport Indirect Cost Allocation: Not Implemented
Sconset Indirect Cost Allocation: Implemented
Landfill Indirect Cost Allocation: Implemented
Sewer Indirect Cost Allocation: Implemented

Discussion: The Finance Director has drafted a revised indirect cost methodology and a compilation of FY 2009 indirect costs for the five enterprise funds and has submitted those documents to The Abrahams Group for comment. The methodology is transaction based, and computes a percentage for the Wannacomet Water, Sconset Water, Sewer, Airport and Landfill enterprise funds. These percentages are applied to allocate a reasonable cost of the Finance Department for services they provide on behalf of these funds. In addition, a methodology has been developed for the Town Manager’s (Administration) costs. The methodology addresses FY 2009 indirect costs based on FY 2008 actual expenditures. The Abrahams Group has reviewed the methodology and

indirect costs for reasonableness. The draft has been forwarded to the Airport and Wannacomet Water for comments.

Wannacomet Water has formally accepted the indirect cost methodology. The Airport has not formally accepted the methodology. The Finance Department and the Airport are meeting to resolve this issue. Assuming acceptance, Wannacomet Water, the Airport and the Town should sign the written, documented methodology.

Recommendation #30

Restructure the School Chart of Accounts

Status: Progress has been made. The chart of accounts has not been finalized.

Discussion: The Abrahams Group is assisting the School Business Manager to implement a revised School chart of accounts. A new account code structure has been developed. Segment lists for general fund and non-general fund accounts have been developed. The work that remains includes completing the orgs and descriptions for all accounts, finalize the MUNIS conversion workbook, upload the chart into MUNIS, edit the chart once in MUNIS, provide training, and go live. The chart of accounts is to be sent to MUNIS in calendar year 2010 for uploading. We note that the implementation of this recommendation will facilitate our recommendation #29, to expedite the filing of the School Department's end of year report.

Recommendation #31

Document Financial Policies and Procedures

Status: In Process

Discussion: The goal of the recommendation was to have formal policies and procedures documented for major financial activities and processes. The Finance Department personnel responsible for a policy or procedure will be responsible for drafting the policy or procedure, which will be sent to the Assistant Finance Director for editing. The Abrahams Group will provide final review of all procedures.

The documentation of a policy or procedure shall include how the policy or procedure shall be disseminated to the relevant Town personnel, and identify any training needed to implement the policy or procedure. A recommendation will not be considered until the policy or procedure outlined by the recommendation is documented.

Recommendation #34

Remove Human Resource function from Finance Department and transfer to H.R. Department

Status: Not Implemented

Discussion: The Human Resources Director has prepared an implementation plan memorandum for this recommendation. The Finance Department and Human Resources Department shall review this memorandum and provide an agreed upon plan on how this recommendation will be implemented.

A key component of the transition is hiring a human resources administrative position. The position has been advertised. The Town is hoping to fill this position by August 15, 2009. However, we have not received other communications on this recommendation.

CONCLUSION

The above discussions have delineated the status of each recommendation in Phases 1 and 2 of the Implementation Plan. Also we have provided a Status Matrix in *Appendix A* which provides a summary.

The Finance Department has made progress over the course of the past year on a number of the recommendations and should be commended for these efforts.

We recommend that the Audit Committee, Town Manager and Finance Department management continue over the next several weeks to complete Phase 1 and 2 of the Implementation Plan. We believe it is important to address the following priorities before addressing other recommendations. We suggest that the priorities and their value or benefit for the Town are:

Priority 1

Implementation of workflows, responsibilities and posting authorities to assure that the Controller's Division (and Accounting Officer) maintain, control and manage the integrity of the general ledger

Benefit and Value to the Town: Several of our recommendations focused on internal controls, division of responsibilities, and segregation of duties to assure "checks and balances". We believe that to refocus the Controller's Division as the pre-audit, review and control entity to oversee and monitor the financial transactions of the Town, will help to assure the integrity of the general ledger. As the Controller's Division (and Accounting Officer) will provide the independent verification of the transactions to their standards, and then and only then will financial transactions be recorded. This in turn will enhance the financial information available to management, Town boards and committees and interested residents.

Other Discussion on Priority 1: The transfer of work responsibilities, work flows and posting authorities must be designed, timed and executed in a coordinated or integrated manner versus the removal of authority from one

individual but continuing other control weaknesses. The Finance Department has specifically discussed the phased in implementation of posting authority in the following order: Treasurer, Treasurer's receipts, Collector's office, and Assessing. An implementation plan needs to be developed for this priority that corrects internal control deficiencies in a coordinated manner so as to eliminate them and not with a sequential approach that creates new internal control deficiencies.

Priority 2

Meet financial reporting target dates.

Benefit and Value to the Town: This time last year we began our review there were many reconciliation issues. One audit was outstanding. The Auditor's management letter continually criticized the Town for internal control issues. The Finance Department would attempt to reconcile cash and accounts receivable, and prepare other audit schedules literally a few weeks prior to the auditor's arrival. The audit opinion letter was a qualified opinion. Our Report was highly critical of the Finance Department.

One year later much progress has been made. Several of our recommendations have been fully implemented or are in process of being implemented. The Town has also completed outstanding audits and other requirements consistent with their timetable as reported to and acknowledged by the Department of Revenue.

It is important for the Town to meet FY 2009 reporting targets. For the FY 2009 audit, the Town and the independent auditors have developed the following schedule to complete the FY 2009 audit report by December 31, 2009, if the Town provides:

- All information except fixed assets by October 1, 2009
- Fixed assets by October 31, 2009.

The Finance Department is committed to earlier dates for completion to provide State reports, in order to have free cash approved before the special town meeting and before submitting the proforma. The Finance Department has also targeted or has completed State-reporting timetables such as:

- Balance sheet by September 2009
- Snow and Ice Report, Submitted on June 30, 2009
- CP-1 report submitted on July 16, 2009
- 4th Quarter Reconciliation of Cash for the Previous Fiscal Year, September 2009
- Statement of Indebtedness, September 2009
- Schedule A, October 2009

Meeting these dates would be a major accomplishment by the Finance Department.

Priority 3

Transfer of human resources activities from the Finance Department to the Human Resources Department

Benefit and Value to the Town: The transfer of human resource related activities will remove several tasks from the Treasury Division of the Finance Department and allow this division to focus on cash reconciliations, cash management, short and long-term borrowing, etc. instead of personnel related tasks. It will also improve internal controls and the Human Resource Department will in the future be responsible for all the data entry, administration and oversight of the personnel modules of MUNIS exclusive of the payroll processing which will continue within the Finance Department.

Priority 4

Instituting on a permanent basis:

- **Monthly reporting of the two part cash reconciliation reporting that was originally recommended in our Report to the Audit Committee and Town Manager**
- **Continue monthly reporting of the reconciliation of accounts receivable to the Audit Committee and Town Manager**

Benefit and Value to the Town: When the Treasurer's Reconciliation of Bank Accounts to Cashbook is initiated and when it accompanies the current Controller's Reconciliation of the Cashbook to General Ledger, the Audit Committee will have evidence of the reconciliation of the general ledger to the bank. This creates ongoing accountability based on the signature of the Controller and the Treasurer attesting to the reconciliation that each is respectively responsible for. It places monitoring with the Audit Committee and Town Manager to assure that this occurs on a monthly basis so past weaknesses will not recur in the future; it becomes a built in accountability mechanism. The same applies to the accountability created by a brief, easily understood accounts receivable reconciliation report to be submitted to the same parties. The accounts receivable reconciliation report was submitted to the Audit Committee in July 2009; the Finance Department should continue to submit these reports to the Audit Committee.

Priority 5

The appointment by the Treasurer of an Assistant Treasurer pursuant to MGL Chapter 41, Section 39A.

Benefit and Value to the Town: A major entity as the Town of Nantucket must have someone designated immediately that can sign a check in the absence of the Treasurer. Our recommendation is that the Treasurer should appoint an Assistant Treasurer immediately.

Status of Recommendations

Rec. #	Fundamental Purpose/Objective		Accomplished	Partially Accomplished	Not Accomplished	Very Recently Implemented and Premature to Assess	Comment
1	To assure duties that should be segregated are segregated to prevent internal control weaknesses	Int. Control		✓			Combination of duties vested with one position (Treasurer) all reassigned to another individual continuing the internal control weakness in its entirety.
	To assure Controller posts all receipts to G.L.; not Treasury				X		Postings continued as part of Treasury duties. Town to revise posting procedures.
2	Independent (Check and Balance) Reporting of All Receipts and Collections to Controller's Division as basis for independent recording and posting to G.L.	Int. Control	✓			✓	Recently implemented, to assess at future date
3	Provide receipts at time to Turnovers from Collector	Int. Control		✓			Treasurer provides deposit slip
	Provide receipts at time to Turnovers from Departments			✓			Recently implemented, to assess at future date
4	Removal of Abatement Entry from Collector's Staff and Transfer to Assessors Staff	Int. Control		✓			Abatement entry removed from Collector
	Posting of Abatements by Controller's Division	Int. Control			X		Abatement review and posting has to be done by Controller's
	Removal of Posting Authority (for anything, including Payments to the General Ledger)	Int. Control			X		Collector still posts payments to the G.L, this responsibility has to be transferred to "Controller's" for pre-audit and timely posting to G.L. for central control and maintenance of G.L. and accurate and timely financial information
5	Remove Collector as Signature on Bank Account	Int. Control	✓				Completed
	Pay Deputy Collector through Warrant signed by "Accountant" and Board of Selectmen consistent with MGL	Int. Control	✓				Completed
	Close Town Clerk's Bank Account and make all vendor payments through warrant process (note: not scheduled for Phase 1 or 2 implementation)	Int. Control			X		All vendor payments must go through the Warrant Process as required by MGL and all receipts must be deposited in a bank account under the purview of the Treasurer

Status of Recommendations

Rec. #	Fundamental Purpose/Objective		Accomplished	Partially Accomplished	Not Accomplished	Very Recently Implemented and Premature to Assess	Comment
6	Submittal of Cash Register Tapes for Significant "Cash" Turnovers	Int. Control	✓	✓			Accomplished for school lunch program, other "cash" areas are being assessed
7	Eliminate practice of a cash drawer in the Collector's Office			✓			Two cash drawers have been received, but not implemented
9	Finance Department to sign PAFs as budget control		✓				Completed
	Institute a Personnel Requisition Form		✓				Completed
10	Appropriate Written Authority and Understanding of Collective Bargaining Agreements and other non routine payments			✓			New procedures in draft
11	Assure Correct Payroll Authorizations		✓			✓	New signature block recently implemented
17	Eliminate Duplication in Recording Abatements				X		Town has decided to maintain the Manual Log Process in combination with the MUNIS recording/ledger
18	Present Evidence of Rec of Cashbook to G.L.		✓				Should be signed by Treasurer and Controller
	Present Evidence of Reconciliation of Bank Accounts to Cashbook				X		Reconciliation of Bank Accounts to Cashbook and signed by the Treasurer has never been submitted to Audit Committee
26	Facilitate on line Bank Access		✓				Completed
33	Need to assign clear responsibilities/dichotomy between the two accounting/control positions			✓			Accountability for each official, outline of responsibilities recently developed
35	Appointment of Assistant Treasurer per MGL Ch 41, s 39A				X		No position can sign a check in absence of Treasurer Treasurer must appoint an Assistant Treasurer
36	Assess Responsibilities of Executive Assistant to optimize "back up" for key functions		✓				Completed

Status of Recommendations

Rec. #	Fundamental Purpose/Objective		Accomplished	Partially Accomplished	Not Accomplished	Very Recently Implemented and Premature to Assess	Comment
8	Transfer Entry of MUNIS Personnel Actions to HR to assure sound segregation of duties	Int. Control		✓			To assure sound division of responsibility and segregation of duties
12	Centralize MUNIS Control of "New Vendor" Set up to prevent fraud and assure procurement was authorized	Int. Control		✓			MUNIS Authorities show widespread access and ability to set up new vendors
14	Require "Receiving Reports" to assure documentation or receipt of goods and materials	Int. Control	✓				Actual warrants with paid invoices need to be tested to validate receiving reports are used
19	Report all Balances on MLCs to assure sound practice and to protect town's right to collect the money			✓			Additional training needed to access data base Revised procedures needed
20	Record all Receivables on G. L. based on recording of the relevant source documents	Int. Control		✓			All financial activity recorded on G.L. should be based on source documents
22	One Audit Firm to audit all Town Funds		✓				Completed
27	Formalize Indirect Cost Methodology		Imminent				Airport has not approved of the indirect cost plan Issues with FAA
30	Restructure School Chart of Accounts			✓			In process
31	Document Financial Policies and Procedures to assure sound practice, understanding for finance staff and all departments and agencies			✓			In process
34	Transfer H.R. functions done by Finance to H.R. Department in order to focus Finance on core mission and financial management objectives				X		Promote focus on reconciliation of cash/treasury functions