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Certified Public Accountants



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

Dear Selectboard,

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 East Montpelier as of and for the six month period ended June 30, 2007, 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. We consider the following deficiencies to be significant deficiencies in internal control:

- Lack of controls to ensure employee benefits and withholdings are accurately calculated, withheld, paid and reported.
- Lack of controls to ensure vendors payments are properly supported, authorized, accurately paid and consistently recorded.

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 over cash due to non-segregation of Treasurer's functions (collects receipts, does all the recordkeeping, has cash account withdrawal authorization) along with a) no oversight of these functions, b) Treasurer having control over second signer of checks, c) allowing signing of blank checks and d) allowing vendor and payroll checks to be distributed/mailed before Board authorization.
- Lack of controls over the Grand List records due to full system access granted to others besides the Listers.

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:

Treasurer's functions and related oversight and procedures

As a result of staffing changes and limited staff, procedures were changed for better efficiency but have reduced the internal controls within the Town. The items that came to our attention were:

- 1- The Treasurer collects receipts, does all the recordkeeping functions, and has cash account withdrawal authorization with limited oversight procedures in place.
- 2- The required dual signatures on all checks are done by the Treasurer and Assistant Treasurer. Due to the nature of these positions, having the Assistant Treasurer as the second signer provides limited control.
- 3- Checks were being signed before any information was printed on them.
- 4- All payroll checks and some vendor checks were being distributed/mailed before the Board authorized payment.
- 5- When the Board authorized payroll checks, only the net check information was provided to the Board.

We recommend the Board should implement a few changes to increase the Town's internal controls as follows:

- Either a Board member or someone other than the Treasurer or Assistant Treasurer should review and approve the monthly bank statement and reconciliation. This would provide some oversight on the cash activity within the Town.
- No payment should be distributed or mailed unless the Board has authorized such payment to be made, which usually is done with the approval of the warrants.
- On the payroll warrant, detailed wage and withholding information should be provided along with the warrant.
- We strongly recommend that checks not be signed until information is printed on them.

Grand List Access

We noted during our audit that the Treasurer and Assistant Treasurer have full system access to the Grand List NEMRC program. To ensure changes are not being done to the Grand List that is not authorized and to increase the other controls, only the Lister(s) should have full system access. We strongly recommend the Town utilize the access restrictions allowed through the NEMRC program. The system allows many different levels of access, ie: report reading only, state change acceptance only, etc. The need for access along with the need for internal controls should be considered when determining access levels.

Significant Deficiencies

We consider the following to be significant control deficiencies but not material weaknesses:

Employee Benefits and Withholdings

The Town has had some staff changes and some of the benefit plans affecting these employees were not handled correctly. Items noted during the audit were:

- 1- Vermont Municipal Employees' Retirement System (VMERS) contribution was not withheld on an employee's vacation pay. VMERS contributions are required on all types of pay.
- 2- One employee never participated in the VMERS plan but met all requirements and should have been participating in the plan.
- 3- New employees that met the requirements to participate in the VMERS plan were not enrolled until after three months of employment. In accordance with the VMERS plan "Enrollment is mandatory and you must be enrolled in VMERS as soon as you meet the eligibility requirements, regardless of any probationary period your employer may have." The only exception to this is if the employer offers the employees an alternative Defined Contribution plan. There were no records that the employees were notified of any alternative plan.
- 4- Wages were over reported to VMERS resulting in an overpayment of \$799 to the plan.
- 5- Health insurance benefits are partially paid by the Town and partially paid by Employees through payroll withholdings. During the year employees left and no reconciliation or adjustments were made on their final pay to ensure the Employee's portion of the benefit was collected. In addition, there is no reconciliation being done on existing employees to ensure the amounts withheld during the year equals the amounts that should have been withheld. Both of these items resulted in the Town paying a larger share of benefits than it should have.

We recommend the Town have a better understanding of employee benefits, reporting and improve the tracking/reconciliation system for these benefits. As part of tracking the benefits and reconciling them, it is important that the person assigned to this task has access to information needed.

Vendor Payments

During our audit we did a test of vendor payments and the related process. We found the following:

- 1- Some payments were made with only a statement to back up the payment versus an invoice. An invoice provides the description of the item purchased or service provided whereas a statement will only provide the invoice number and amount. A statement does not provide the detail of what was purchased, only from whom and amount.
- 2- Some vendors were double paid. In all the cases we found, the double payment was supported by a statement versus an invoice. Payment to vendors can be tracked by invoice numbers, therefore paying off an invoice can reduce the chance of a double payment. Vendors generally only issue one 'original' invoice and with tracking payment by invoice number, this will reduce the chance of double payment.
- 3- As a result of these double payments, vendors had credits available on the Town's accounts. When subsequent purchases were made with these vendors, the credit balance was reduced; therefore no check was issued. Since no check was needed for payment, these invoices were never seen or authorized by the Board for approval.
- 4- Some confusion regarding a double payment made to a vendor resulted in an incorrect income request for a grant reimbursement.
- 5- Some invoices were paid without approval from the Road Foreman for verification that the item or service was actually received.
- 6- Some early payment discounts were taken on invoices when early payment was not made, resulting in underpayment charges.

We strongly recommend that no payment be made without an "original" invoice and without verification sign off that the item or service was received. In the package provided to the Board for vendor payment approval, usually there is the warrant summary, the invoice to be paid, along with an unsigned printed check. We recommend either the Board or someone not involved in the payable process do a detailed review of information presented for payment before Board approval.

Control Deficiencies

We consider the following to be control deficiencies but not significant deficiencies and not material weaknesses:

There were account name changes made in the NEMRC accounting system during the year which resulted in inconsistent reporting of expenditures. We suggest that changes in account names be done at the beginning of a fiscal year, reducing the risk of inconsistencies.

We noted there was limited access to the NEMRC accounting system, mainly access granted to the Treasurer and Assistant Treasurer. As mentioned previously, NEMRC has access levels in their system. One level of access is "report viewing and printing" only. The Town Administrator does many financial analyses for the Board and it would be beneficial to allow her 'report viewing and printing' access. This would also eliminate the Treasurer having to continually print reports for the Town Administrator. We recommend the Board consider this when reviewing access to the Town's programs.

We noted that the Town does not have a ‘complete’ employee file for each employee. When testing for pay rates, dates of hire, dismissals, benefits, etc. for the employees, there was lack of documentation and information not easily located to support these items. We recommend the Town maintain an ‘employee’ file on all employees to support the proper authorization on employee matters.

During our inquiry of the Board and Town personnel we noted that financial reports were not given timely to the individuals needed to manage the Town and its operations. We recommend that monthly timely reports be made available to the Board, Town Administrator, and Department Heads so that Management can react to any budget differences more timely.

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 6/30/07, 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 - 7 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 \$145,340, a reserved fund balance of \$452,639, \$306,310 for special purposes and \$146,329 from permanent funds. In the audited financial statements issued for 6/30/07, 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 six months period ended June 30, 2007. 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:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenue:			
Property taxes	\$ 408,991	\$ 399,556	\$ (9,435)
Interest (bank & taxes)	3,500	12,467	8,967
Expenditures:			
Employee benefits	48,246	59,168	(10,922)
Accounting & legal fees	21,916	11,472	10,444
Ambulance service	12,600	0	12,600
Repairs & maintenance -			
highway equipment	22,800	52,284	(29,484)
Highway labor	77,919	89,129	(11,210)

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,

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