

January 6, 2022

To the Management of the Town of
Winslow, Maine and the Winslow
School Department:

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 Winslow, Maine as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Winslow, Maine's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 of Winslow, Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Winslow, Maine's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in the Town of Winslow, Maine's internal control, and presented in the Schedule of Comments and Responses attached to this letter, to be a significant deficiency.

During our audit, we became aware of other matters that are opportunities for strengthening internal controls and operating efficiency. They have been identified in the attached schedule as "Other Comments".

The Town of Winslow, Maine's responses to the significant deficiency and other comments identified in our audit are described in the accompanying Schedule of Comments and Responses. The Town of Winslow, Maine's responses have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

We wish to express our appreciation for the cooperation and assistance we received from the officials and employees of the Town of Winslow, Maine (including the School Department) during the course of our audit. We will review the status of these comments during our next audit engagement. We have already discussed them with various Town and School Department personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, the School Board, the Town Council, and others within the Town of Winslow, Maine, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,



TOWN OF WINSLOW, MAINE
Schedule of Comments and Responses
June 30, 2021

SIGNIFICANT DEFICIENCY

Preparation of Financial Statements

Criteria: Client personnel designated as having responsibility over the financial reporting process would need to have the knowledge of all the various financial statement disclosure requirements in addition to an understanding of fund financial statements and government-wide financial statements.

Statement of Condition: Auditing standards require external auditors to determine whether or not client personnel designated as having responsibility over the financial reporting process possess the expertise to identify all financial reporting matters in compliance with generally accepted accounting principles without the reliance on external auditors.

Cause: The Town does not employ an individual that possesses the expertise to prepare a complete set of financial statements that are in accordance with generally accepted accounting principles.

Effect: The Town is considered to have a control deficiency in the design of internal controls over the preparation of the financial statements in accordance with generally accepted accounting principles, and as a result, we are required to report this as such in this letter.

Recommendation: From a practical standpoint, the costs of maintaining the expertise in-house to meet these requirements often exceed the benefit. As a result, it is common practice for governmental entities to rely on assistance from their auditing firm to assist in the preparation of the financial statements and the related disclosures. When the auditing firm prepares the financial statements, the Town must assign a competent management level individual to oversee this service. Additionally, management must review, approve, and accept responsibility for the financial statements and related notes.

Management's response/corrective action plan: *Regarding the noted significant deficiency pertaining to the preparation of financial statements, management for the Town of Winslow, Maine understands the current accounting standards. The cost of having an expert in-house to prepare the financial statements exceeds the benefits; therefore, we hire an outside audit firm to prepare our financial statements.*

TOWN OF WINSLOW, MAINE
Schedule of Comments and Responses, Continued

OTHER COMMENTS - TOWN

Segregation of Duties (repeat)

Criteria: Fundamental to proper internal controls is the division of duties in such a manner that no single individual handles the transactions completely from beginning to end. Appropriate segregation of duties helps to detect errors in a timely manner and deter improper activities. For example, having an employee with no cash receipts or disbursements responsibility perform the bank reconciliation is considerably more effective in meeting the applicable specific internal accounting control objectives than having the reconciliation performed by an employee with such responsibility. Similarly, internal accounting control is enhanced when the employee who handles the accounting for an asset, such as cash, is denied access to the asset.

Statement of Condition: The Town currently does not have appropriate segregation of duties within the Town's accounting functions.

Cause: The Finance Director performing all of the following functions:

- Performing payroll functions
- Preparing and posting journal entries
- Maintaining the general ledger

Effect: Anyone who records transactions and has access to the general ledger is in a position to perpetrate errors or irregularities.

Recommendation: The Town has implemented several mitigating controls that compensate for the segregation of duties issues. However, because of the limitations of the size of the Town's staff, we suggest that cautious review of financial transactions, such as a review of journal entries, continue to be performed by responsible officials. We also recommend that monthly financial reports continue to be reviewed in depth to identify possible financial fluctuations of an unusual nature.

Recording Cash Receipts in Capital Improvement Funds and Grants (repeat)

Criteria: Revenues should be recorded separately from expenditures to properly track those funds in the accounting system.

Statement of Condition: Certain revenues have been posted to expenditure accounts. These include grant funding for public safety, where grant funds are posted against the expenditures that they are reimbursing. These also include funds received for certain capital improvement expenditures.

Cause: The Town records certain grant funds and other funding in expenditure accounts to net those revenues against the expenditures. The Town uses this process to track level of funding for certain grants and capital improvement projects.

Effect: Revenues and expenditures for certain grant funding and capital outlays are understated. This increases the risk of misstatement in the financial statements and the schedule of expenditures of federal awards. These amounts were grossed up on the financial statements for proper disclosure of those funds.

TOWN OF WINSLOW, MAINE
Schedule of Comments and Responses, Continued

Recommendation: The Town should record all receipts for grants and other capital funding as revenues as opposed to recording them as credits to expenditure accounts. We suggest if the Town would like to continue with recording these amounts within one line item in the accounting system that a separate spreadsheet be maintained showing all cash receipts posted against expenditure accounts and tracking all grant moneys received. We also recommend that the Finance Director maintain a file for all grant funding received to ensure compliance with grant requirements, grants are not overspent, and grants are properly reported on the schedule of expenditures of federal awards.

Monthly Reconciliation of Taxes and Sewer Receivables

Criteria: Receivables for taxes and sewer services should be properly maintained in the accounting system and reconciled to receivable listings on a monthly basis.

Statement of Condition: Receivable balances for taxes and sewer services in the accounting system were not properly reconciled to taxes and sewer receivable listings. Taxes also included an erroneous tax billing in the accounting system of \$40,153,571. Neither tax receivable listings nor sewer receivable listings were generated at year end.

Cause: Monthly reconciliations were not being properly performed for taxes and sewer receivable balances. Payments for taxes and sewer services were not posting to the correct receivable accounts in the accounting system. These variances were exasperated by an erroneous billing of \$40,153,571 that was not subsequently reversed in the accounting system.

Effect: Taxes and sewer receivable balances in the accounting system required material audit adjustments to correct. After the reversal of the erroneous billing, taxes receivable in total required an adjustment of \$7,740, but some individual taxes receivable accounts required adjustments of nearly \$7,000,000. Sewer receivables in total required an adjustment of \$3,799, but some individual sewer receivable accounts required adjustments of approximately \$300,000.

Recommendation: We recommend generating receivable listings for taxes and sewer services at the end of each month and reconciling those balances to the balances recorded in the accounting system. If the balances do not reconcile, the differences should be investigated and corrected on a monthly basis and the accounting system updated to properly post receivables to the correct taxes and sewer receivable accounts.

Ambulance Receivables

Criteria: Receivables for ambulance services should be properly recorded in the accounting system. These types of receivables should also have an allowance for doubtful accounts.

Statement of Condition: Receivables for ambulance services were not recorded.

Cause: The Town started providing ambulance services during the fiscal year, for which it utilizes a third party to provide billing and collection services. The Town recorded revenues when cash was received from the billing agency. The Town did not record any receivables pertaining to ambulance services.

TOWN OF WINSLOW, MAINE
Schedule of Comments and Responses, Continued

Effect: Accounts receivable and ambulance charges for services were understated by \$71,522. This includes \$91,793 of accounts receivable and allowance for doubtful accounts of \$23,271.

Recommendation: We recommend recording an accounts receivable and an allowance for doubtful accounts for ambulance billings. The receivable account should be reconciled monthly to the information provided by the billing agency. The allowance for doubtful accounts should be based on historical data and adjusted annually at a minimum.

Timesheet Approval

Criteria: A key component in internal control for the payroll process is the approval of time worked by an appropriate supervisor.

Statement of Condition: During our testing of the Town's payroll process, we found six out of fourteen timesheets that were chosen for testing that lacked approval from the appropriate supervisor. This included timesheets from the fire (3), public works (2), and police (1) departments.

Cause: The timesheets selected for testing lacked indication of approval.

Effect: Without proper approval, timesheets may contain errors or false time worked that would not be identified on a timely basis.

Recommendation: We recommend that all timesheets have the proper approval notated. We also recommend that when payroll is processed, timecards should be reviewed for proper approval, and if the timecard lacks approval, should be sent back to the appropriate employee to approve the time indicated.