

Graham & Graham, P.C.

Certified Public Accountants
Business Advisors and Management Consultants

September 19, 2016

Town of Coventry
Board of Selectmen
Main Street
Coventry, Vermont 05825

RE: Findings, Requests and Recommendations

Dear Board,

Our CPA firm has been engaged to understand your internal accounting control systems, to test the completeness, correctness and integrity of the recording and reporting and to utilize the information gained from these procedures as evidence for our audit engagement testing of controls over accounting transactions. Our procedures are not yet complete. We are unable to access all Town documentation for a complete accounting and report.

SUMMARY, TO DATE, OF OUR PROCEDURES, INFORMATION REQUESTED, AND FINDINGS

Cash Receipts Procedures

1 – No currency or coins were deposited during the twenty-four month timeframe between July 1, 2014 and June 30, 2016. We know this from bank statement testing and visual review by three members of our professional staff and copies of actual deposit tickets as generated for our use by Community National Bank.

2 – Payments in the form of checks received by the elected Town Clerk/Town Treasurer/Delinquent Tax Collector were held for as long as five months before being deposited in the Community National Bank (CNB) General Fund checking account. In addition, these checks were held past the Town's tax year end of June 30 further complicating the internal control weaknesses. For instance, checks from April and later months were held and deposited in October of the same calendar year.

3 – A payment from NE Waste of Vermont/Casella/WASTE USA in an amount well over \$ 200,000 was held by the Treasurer for a period of nearly ninety days before deposit.

4 – Dozens of taxpayer payments were dated at the due date but not deposited until several days after the due date. Also during this delay timeframe other taxpayers issued checks with dates after the due date. These late property tax checks were actually deposited in mid November prior to the aforementioned checks, which were deposited in late November.

5 – On July 22 2016 a cash deposit of \$ 108.00 was processed by CNB for Town of Coventry funds. This was a few days after a meeting of your Board in which the topic was discussed and concerns were again identified.

Record-Keeping Procedures

6 – No daily summary is kept by the Town Clerk/Town Treasurer/Delinquent Tax Collector (TC/TT/DLQTC) to allow for an audit trail for coins, currency, checks or ACH/Bank payments for any day during our two year engagement scope

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7 – Mortgage company checks for the payment of taxes were dated (received?) prior to the due date in November and were not deposited until several days/weeks after the due date, in late November

8 – Each property tax bill marked paid has no check number, date of check, date of deposit or amount. Accordingly, there is no way, short of reconstructing the entire fiscal year transactions, to properly reconcile amounts paid for current taxes, Delinquent taxes, penalty assessments, interest on late payments or continuing accrued interest for unpaid taxes. We are processing these payments now in order to have reconciled account balances, and to be able to complete the work in which we are engaged.

9 – Several taxpayers overpaid their property taxes during the fiscal year 15/16 because of the issuance of two invoices. The original mailing was followed by a “Revised Bill” properly crediting certain Taxpayers with the so – called State Payment. We do not see any requests for reimbursement for over paid taxes, including a duplicate property tax payment made by the TC/TT/QLQTC for a certain parcel in the Town of Coventry.

10 – The TC/TT/DLQTC did not deposit her taxes before the due date for both years included in our engagement, and no penalty or interest charges have been assessed.

11 – Taxpayers were granted authority by your Select Board to enjoy the benefits of a local paving price reduction. Three Taxpayers chose to accept the offer. When the payments were received no special notation was recorded to identify these payments as paving and not as property taxes.

12 – The Town currently uses an electronic check scanner system provided by CNB. This has been used since October 2014 and does not require a trip to a CNB branch for deposit transactions to occur.

13 – Prior to the use of the electronic check scanner a manual deposit ticket was filled out by the Treasurer

14 – The external software provider, New England Municipal Resource Center or NEMRC, has assisted our firm and the Town during our engagement. It has come to our attention, via NEMRC, that no recording or reporting of payments were documented within the software for reconciliation or audit trail verification purposes. NEMRC has subsequently assisted the Treasurer in the recording of these deposited payments. However, to our knowledge, no cash payment transactions have been included even though we believe these payments occurred.

15 – The Town Treasurer did not issue the required document detailing the official turning over of collection duties to the Delinquent Tax Collector. We recognize this elected person is the same, however, we believe it is the course of action in every Vermont Town and duty of the elected position of the Town Treasurer to complete this function for full disclosure purposes. Currently, we believe the amount of reported Delinquent taxes due to the Town at June 30 for the past few to several years has been understated and further believe the Statutory penalty and interest charges were selectively assessed against some Taxpayer’s and not against all Taxpayer’s

Information Requested

16 – On numerous occasions our CPA firm has asked the Treasurer/Clerk/Delinquent Tax Collector for documents, assistance and answers to questions and concerns. In many instances we did not receive the assistance requested or required by Statute of the elected Office of Clerk, Treasurer or Delinquent Tax Collector. Many of these requests were for common documentation kept in the normal course of business.

17 – We have not been made aware of the required late payment ((8%) assessment amounts or interest on late payments for Taxpayer’s owning property in Coventry per the Delinquent Tax Collector

18 – The attachments from Mortgage companies were not made available to our firm to verify the taxpayers credited with property tax escrow payments presumably throughout the calendar or fiscal year. We are in the process of requesting this information from each of the mortgage companies to properly identify payments received by the Treasurer and deposited in CNB. Many of these checks were dated several days prior to the due date of the property taxes and deposited many days after the due date.

Findings

19 – In the year 2013 the previous Auditor of Accounts, Thomas Salmon II, issued a “Situation Report” about the practices of the then current and still elected Town Clerk/Town Treasurer/Delinquent Tax Collector. The report depicted then remarkably similar problems for lack of an audit trail, need to identify actual balances by requesting Town – wide balance confirmations, the lack of internal controls and recording or proper reporting of physical cash receipts and verifiable deposit transactions.

20 – For the fiscal year ending June 30 2013 another CPA firm was engaged to provide a financial audit of the Town of Coventry. That firm issued a letter stating the Town was not in possession of sufficient, competent evidential matter to perform an audit and to provide an opinion of the financial position of the Town. The letter disclaimed an opinion on the financial position of the Town. This situation continues in this unacceptable form.

21 – During the course of our engagement we analyzed the Annual Report issuance for accuracy and completeness. We have concerns with each topic area. The Town of Coventry owns in excess of thirteen million dollars of assets with little or no obligations against those assets. The Taxpayers of the Town were not notified of the correct financial position. In addition, the Town Taxpayer’s did not receive full disclosure of the type of investment asset or prudence of the invested Town funds, or losses sustained during a period of market turmoil, as is required of the Town.

22 – It has come to our attention that certain cash payments were received by the Town Treasurer or Delinquent Tax Collector. It is also believed that these cash payments were placed, at times, in the Vault of the Town. Later we believe these cash payments were taken from the Vault for a variety of purposes. None of these cash removals were authorized by the Select Board who is charged with the sole authority to disburse funds of the Town of Coventry. It is our belief these cash and coin removals were substantially for purposes other than Town of Coventry business. If they were for legitimate Town purposes it is believed to be the obligation of the Town Clerk/Town Treasurer/Delinquent Tax Collector to request, via the so-called (internal) Warrant request, to receive advance or written approval via majority vote of the Board of Selectmen.

23 – An adjustment of over \$ 45,000 was required to reconcile the bank account balance with the general ledger balance at June 30 2014. This would be the type of entry required if payments were acknowledged by the Treasurer but not received in the CNB, or other Town, account. A similar entry was required for the Town general ledger for the fiscal year ending June 30 2015. The amount was different however no DLQT reconciliation was possible at that time because the QLQTC would not provide the transactional evidence to prove the correct balance due the Town as of June 30 2015.

24 – The Town invests in Annuity funds and uses an out of state advisor to invest funds for the Town. The Town has engaged a local income tax office to assist in the placement of these significant investment balances. It is our position and opinion that these are not authorized investments nor prudent (per the Prudent Investor Act of the State of Vermont) investment advisor agreements with these sources. We reviewed a nearly one million dollar decline in the combined portfolio balance during a five month period in the early 2015. This level of decline could have been altered with better and more prudent safeguards and controls. The pecuniary interest holder’s of these Annuities is of concern and is an important component of our concern about authorization and prudence

25 -We believe the Town should immediately review the Annuity arrangements and consult with the proper State Agency to determine the authority and to develop an alternate plan to replace these contracts with other investments. Some of the reasons for this concern include the fact that the two types of accounts held are labeled as "Private Annuity" and "Non Profit Organization". If these are labeled as such one might accurately be concerned that the investment is not proper for a municipal entity or the Advisor is improperly investing in funds not allowed by Vermont Statute. The names listed on the Annuity contracts, in key areas, are elected officials and not the Town of Coventry, which leads us to further concerns about the reasoning behind these investments.

26- The Town may not be properly covered by financial insurances for the portfolio assets held for investment

27 – The Select Board has a fiduciary obligation to act prudently and always in the best interest of the Town of Coventry. This duty encompasses many types of fiscal responsibilities. We believe one of the duties of the Board is to report the full and complete financial position of the Town and to allow for proper discharge of Right to Know law types of requests, whether auditor related or otherwise. This duty exists even if the Town Clerk, Town Treasurer or Delinquent Tax Collector discharges their elected official duties or not.

28 – The Select Board can employ qualified individuals to assist it in its discharge obligations, including those otherwise charged to the Town Clerk, Town Treasurer and or Delinquent Tax Collector. The Board may include these costs in the budget request to the Taxpayers for their approval.

Requests

29 – Our firm is about to undertake a procedure similar to the one utilized by the Auditor of Accounts. We plan to forward up to 500 requests for the past two fiscal years using a "positive response" confirmation request letter. This letter will request the assistance of the Taxpayer to identify when and if they have made their required property tax payments to the Town of Coventry. Each conformation letter request will ask for payment type (cash, check, ACH/Bank payment) if actually made and will ask for the details of issuance of a receipt, if any, date of payment, inclusion of penalty and interest if deemed deposited or paid after the due date of the annual tax assessment. We will follow up with each Taxpayer for a reasonable amount of attempts if this response isn't received by our CPA firm.

30 – We recommend that the Select Board require proper employee reporting for all compensation payments for services benefitting the Town

RECOMMENDATIONS TO THE BOARD

A – Consult with the Vermont Secretary of State for required disclosure topics

B – Consult with the Vermont Treasurer's office for a complete listing of all allowed investments and investment Advisor's

C – Consider hiring a qualified accountant to properly record and report all Town financial and appropriate non-financial transactions in the books and records of the Town

D – Request a complete review of the actions and lack of disclosure and transparency, by Law Enforcement and other applicable officials, for the missing cash and currency transactions

E – Request a meeting with your Fidelity Bond carrier to discuss the current and prior instances of missing cash assets of the Town to assess the availability of insurance protection and reimbursement

F – Seek Right-To-Know Law requests to obtain all documents to fully discharge the Board's fiduciary obligations of your office

G – Seek the assistance of an independent General Counsel for all of your areas of concern and duties inherent in your Board position

H – Consider reissuing financial position reports when all information is known

I – Immediately seek the assistance of a group of Investment Advisors to assess the propriety of the investment portfolio assets held by the Town and to change the portfolio mix currently utilized

J – Seek further assistance from NEMRC for accounting transaction reporting and completeness issues

K – Institute a strong and verifiable system of Internal Accounting Controls that meets government standards and accounting profession standards to allow for opinions of financial position from outside audit firms

L – “Mirror” report generation and regularly review with a financial staff member of your choice, all financial transactions for collections, disbursement, payroll, asset protection and existence. This staff member must be well versed in municipal accounting and government reporting obligations in Vermont.

M – Document the obligations of the Town Clerk, Town Treasurer and Delinquent Tax Collector and how these duties were discharged. This will be a very important audit procedure for current and future financial audits


N – Require and mandate a complete and timely listing of all cash and other financial resources on a daily basis. Also, mandate an immediate deposit policy for all payments received by the Town, whether for grants, taxes, fees, reimbursements, tipping fees or other resources due the Town

O – Seek immediate advice on the insurance levels required to properly cover the risks and amounts for your investment portfolio

I plan to finalize our work upon receipt of the mortgage company payment allocation details, and a syncing of 2014-2015 taxpayer balances with 2015-2016 payment information. This process may take until the end of September to complete.

Please feel free to discuss your questions and offer comments after your review.

Sincerely,



Jeffrey A. Graham, CPA, CFF, CSEP
Graham & Graham PC