



Proven Expertise and Integrity

April 7, 2023

Town Council
Town of Gray
24 Main Street
Gray, Maine 04039

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 Gray, as of and for the year ended June 30, 2022, we considered the Town's internal control. We did so to determine our auditing procedures for expressing an opinion on the financial statements, but not for expressing our opinion on the effectiveness of the Town of Gray, internal control over financial reporting or compliance.

During our audit, we became aware of several matters referred to as "management letter comments" that offer opportunities for strengthening internal control and improving operating efficiencies of the Town of Gray and the following pages summarize our comments and suggestions on those matters.

This report is intended solely for the information and use of the Town Council, management, others within the entity and awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

These matters do not modify our opinion on the financial statements for the year ended June 30, 2022, where we expressed an unmodified opinion on our independent auditors' report dated April 6, 2023.

Bank Reconciliations:

The Town, at the time of audit fieldwork for fiscal year ended June 30, 2022, did not have all Town banking records reconciled to Town information including Town TRIO general ledger. We consider this area crucial in the Town's processing of accurate financial information. We recommend that the Town perform all cash reconciliations to its TRIO software within 15 days of month end. In addition, we recommend Town management implement procedures to ensure reconciliations are performed timely and reviewed independently by the Board of Selectmen for accuracy.

Lack of Internal Controls – Payroll:

It should be noted that while performing the audit for the above-mentioned year end, the Town did not remit the proper payroll tax holding for certain payroll periods. As a consequence, the Town was penalized by the Internal Revenue Service for this error. We recommend that the Town review controls over payroll and review the current policies and procedures and where necessary revise and/or develop and implement policies to improve internal controls. Revised policies and procedures should be given to the Town Council for approval. Further, we recommend that reviews of payroll software settings are completed on an annual basis to ensure deduction accuracy and that all payroll documentation is compliant with state and federal law.

Payment of Sick leave:

While performing testing and review of payroll, we noticed an employee was paid sick time at separation of service. The amount approximated \$27,000. In reading the Town's policy regarding payment of sick time, we see that sick time is not paid at separation of service unless the employee was compliant with years of service and other criteria. Furthermore, we see that the amount was put on a warrant that does not appear to be signed by the Town Manager and Selectboard. We recommend the Town review this area and make adjustments where necessary.

Credit Card Missing Invoices:

While performing the audit for the above mentioned fiscal year end, we noted that Town purchases including credit card and open account invoices were missing purchase receipts. We recommend that invoices are reconciled to receipts prior to payments for all credit cards and open accounts and that the Town adhere to its personnel policies when making reimbursements for Town expenses.

Vacation Time Record-Keeping:

While performing testing in the area of payroll, we observed while testing transactions, that an employee appears to have taken a vacation. In reviewing various employee payroll information, the time actually paid for in testing this transaction appears to be in addition to regular time worked. It appears vacation time may be overstated as a result of that accounting. This may lead to inaccurate information being recorded and improper payouts at the time of separation of service if the hours are not accurately stated.

Cross Training:

Currently, the Town has no defined back up for the finance position. We believe that this position is vital to the Town and that the Town should cross train existing personnel within the Town office to each be knowledgeable and have abilities to perform a function or two of this job if necessary.

General Ledger Reconciliations:

All general ledger accounts should be reconciled on a monthly basis and when necessary to subsidiary ledgers. At the time of fieldwork various general ledger accounts including cash, tax, payroll tax liabilities, budgeted transfers and other various accounts did not reconcile. Reconciling all accounts is crucial to the fiscal affairs of the Town and crucial in allowing the Town to make good business decisions based on accurate financial information. The Town should reconcile all general ledger accounts within 21 days from month end.

We would like to thank Nate, Katie and all the staff at the Town of Gray for their cooperation throughout this process.

If there are any questions regarding this letter, please do not hesitate to call.

Very Best,

A handwritten signature in black ink that reads "RHR Smith & Company". The signature is written in a cursive, flowing style.

RHR Smith and Company, CPAs