

CHESTER MUNICIPAL ELECTRIC LIGHT DEPARTMENT
INTERNAL CONTROL REPORT
YEAR ENDED DECEMBER 31, 2023

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& ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

To the Chester Municipal Electric Light Department
Board of Commissioners
Chester Municipal Electric Light Department
Chester, Massachusetts 01011

In planning and performing our audit of the financial statements of Chester Municipal Electric Light Department, as of and for the year ended December 31, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered Chester Municipal Electric Light Department'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 Chester Municipal Electric Light Department's internal control. Accordingly, we do not express an opinion on the effectiveness of Chester Municipal Electric Light Department'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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 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 deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control.

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This communication is intended solely for the information and use of management, the Board of Commissioners, and others within Chester Municipal Electric Light Department, and is not intended to be, and should not be, used by anyone other than these specified parties.

We are available to answer any questions that you may have related to the control deficiencies we identified during your audit or discuss the benefits and associated costs of any options you have for remedying them if you would like to do so.

We would like to take this opportunity to thank the Chester Municipal Electric Light Department staff for the courtesies that were extended to us during our audit.

Respectfully submitted,

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.
October 3, 2024

Current Year Comments:

Drafting of Financial Statements

Finding: CMELD does not have an internal control system designed to provide for the preparation of the financial statements and related financial statement disclosures being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance. Although this circumstance is not unusual for a Department of your size, the absence of this control procedure is considered a significant weakness because the potential exists that a misstatement of the financial statements could occur and not be prevented or detected by the Department's internal control. It is the responsibility of management and those charged with governance to determine whether to accept the risk associated with this condition because of cost or other considerations.

Segregation of Duties

Finding: Due to the small size of the Department, ideal segregation of duties cannot be achieved. This is not unusual for a Department of your size; however, the lack of segregation of duties increases the risk of fraud related to misappropriation of assets, financial statement misstatement, or both. Management should constantly be aware of this condition. It is the responsibility of management and those charged with governance to make the decision to accept the degree of risk associated with the condition because of cost or other considerations. While we recognize it may not be cost effective to justify implementing a full segregation of duties for an extensive system of internal control in all areas, we believe it is important that management and those charged with governance are aware that some weaknesses may exist and that they should continue to apply diligent oversight and monitoring activities.

Significant Accounts and Processes:

Finding: The following individual account issues were noted:

- 1. General Ledger** – A record of transactions should be maintained timely and accurately. The potential effect of incomplete records is that the financial statements could be missing crucial information and reporting inaccurate figures, which could also result in an understatement or overstatement of net income.
- 2. Accounts Receivable** – There should be procedures in place to ensure accurate recording and relief of receivables as billings are recorded and payments are received. The potential effect of not monitoring accounts receivable could result in an overstatement or understatement of revenues.
- 3. Accounts Payable** – There should be procedures in place to ensure accurate recording of vendor bills in the proper period. The potential effect for not posting expenses in the proper period could result in an overstatement or understatement of expenses.

Significant Accounts and Processes (Continued):

- 4. Cash Reconciliations** – We noted that the cash reconciliations were not being performed regularly by the Department. A reconciliation is important to maintain the accuracy of the cash balances and other activities. The potential effect of not reconciling is that errors, omissions, and misappropriations of assets or expenses will not be detected.
- 5. Inventory** – During the audit, it was noted that a final inventory valuation report for the period under audit was not available, and the data provided was incomplete. An accurate inventory valuation should be maintained and reconciled to the general ledger regularly. The potential effect is the overstatement or understatement of inventory, capital assets, or expenses.