

TOWN OF WAREHAM, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2014



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To the Honorable Board of Selectmen
Town of Wareham, Massachusetts

In planning and performing our audit of the financial statements of the Town of Wareham, Massachusetts (the Town), as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 have identified these findings in the material weakness section of this report.

In addition, we became aware of other matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning the other matters.

We will review the status of these other matters and material weaknesses during our next audit engagement. We have already discussed these comments and suggestions with various Town personnel, and 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.

The Town's written responses to the matters identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management of the Town of Wareham, Massachusetts and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Powers + Sullivan, LLC

December 5, 2014

TOWN OF WAREHAM, MASSACHUSETTS

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TABLE OF CONTENTS

PAGE

<i>Material Weakness</i>	1
Inadequate Design of Internal Control Over Significant Accounts and Transaction Types.....	2
Health Insurance Trust Fund	2
Other Material Weaknesses.....	5
<i>Other Matters</i>	7
<i>Prior Year Comments</i>	8
Formalize Capital Asset Reporting	8
Preparation of the Schedule of Expenditures of Federal Award Programs	8
Automation of Compensated Absences	9
Withholding Accounts	10
Internal Control Policies and Procedures Manual.....	10
Construction Deposits	11
Community and Economic Development Authority (CEDA) Loan Program	11
Fraud Risk Assessment	12
Police Detail Receivables	13
Audit of Health Insurance Plans.....	13
Snow and Ice Appropriation.....	14
Town and the School District	14
Accounting for Short-Term Debt	15
Ambulance Receivables	16
General Long Term Debt Account Group	16
Audit of Student Activity Funds.....	17
Budgeted Estimated Revenues and Other Financing Sources	17
Cross-Training.....	18

Allowance for Abatements 18

Current Year Comments 19

Development of a Year-End Closing Schedule 19

Fund Deficits 19

Recording of State Revenues and Cherry Sheet Charges 20

Other Postemployment Benefit Actuarial Valuation..... 20

Future Governmental Accounting Standards Board (GASB) Statements for Pensions and OPEB..... 21

MATERIAL WEAKNESS

Inadequate Design of Internal Control Over Significant Accounts and Transaction Types

Management must rely on the financial information generated by the Accountant's Office, the Treasurer's Office and the Collector's Office to make decisions that affect Town strategy in developing and meeting short-term and long-term financial goals. Consequently, management must be confident that the information they base their decisions on is complete and accurate. This confidence is gained when there is reasonable assurance that the internal control structure over cash, receivables, revenues and expenditures is of sound design and is functioning as intended.

Each of the Offices noted above plays a key role in developing and monitoring of a sound internal control structure. These roles are summarized as follows:

- The Accountant's Office is responsible for establishing and maintaining procedures to assure that 1) all Town receipts and disbursements are properly authorized and accurately and timely recorded in the general ledger and 2) all journal entries are properly recorded and all have complete supporting documentation.
- The Treasurer's Office is responsible for establishing and maintaining procedures to 1) properly safeguard the Town's cash and investments and 2) assure that all receipts and disbursements are reported accurately and timely.
- The Collector's Office is responsible for establishing and maintaining procedures to 1) assure all bills submitted to the Office are collected as quickly as possible 2) secure the Town's interest in property for delinquent taxes and 3) process receipts promptly in order to maximize cash flow and investment earnings.

Considering these general roles, our review of the internal control structure of these Offices revealed the following deficiencies:

Health Insurance Trust Fund

Comment

The Town had historically not tracked the Employer/Employee share of the Health Insurance Trust and the final accounting relied heavily on special audits of the activity to properly reflect the appropriate shares. In addition, in recent years the Town has underfunded its matching contribution. At June 30, 2014, the audited balance for the Town was \$533,041 (40%) and for the Employees \$803,124 (60%). The proper percentage should be 70% Town and 30% Employees.

As of October 1, 2014, the Town joined the Mayflower Municipal Health Group (the Group) and is no longer self-insured for health care costs. This change will relieve the Town from the need to track the Town and Employee shares and the Town can no longer elect to underfund their share. This will substantially eliminate the material weakness for the health insurance trust fund. However, there will still be a need to track all final expenses incurred on or prior to September 30, 2014 but paid after that date. These payments will still be reported in the trust fund from the remaining fund balance and any stop loss insurance proceeds received. It is important to properly account for the transactions during the run out period as any final surplus or deficit must be returned or funded.

We recommend that an in depth review of this fund be conducted by the end of April 2015 in order to quantify where the total fund balance and the employer/employee splits are. This will allow the Town ample time prior to Town Meeting to determine if any financial decisions must be addressed at that point.

The following tables shows the trend of both actual employer and employee contributions made and the ending split in fund balance for the last seven fiscal years. The tables also include contributions and unaudited ending fund balance splits for the first quarter of FY15. As noted above, the Town has joined the Mayflower Municipal Health Group as of October 1, 2014 for health insurance only. The Town will remain self-insured for dental coverage.

Schedule of Health Care Contributions

<u>Fiscal Year</u>	<u>General Fund Contributions</u>	<u>Grant Contributions</u>	<u>Total Town Contributions</u>	<u>Employee Contributions</u>	<u>Total Contributions</u>
2008	\$ 5,496,318 95%	\$ 263,271 5%	\$ 5,759,589 76%	\$ 1,824,067 24%	\$ 7,583,656
2009	4,680,251 90%	528,184 10%	5,208,435 74%	1,845,418 26%	7,053,853
2010	5,265,651 92%	447,420 8%	5,713,071 75%	1,939,599 25%	7,652,670
2011	5,500,000 95%	276,326 5%	5,776,326 72%	2,235,626 28%	8,011,952
2012	4,119,235 94%	280,655 6%	4,399,890 70%	1,916,371 30%	6,316,261
2013	6,987,694 97%	243,979 3%	7,231,673 76%	2,312,809 24%	9,544,482
2014	6,714,709 96%	280,363 4%	6,995,072 71%	2,808,825 29%	9,803,897
2015*	1,819,659 100%	- 0%	1,819,659 87%	272,917 13%	2,092,576

*Activity is presented as of September 30, 2014 to report the health care contributions prior to the Town joining the Mayflower Municipal Health Group as of October 1, 2014.

Schedule of Employer and Employee Fund Balances

<u>Fiscal Year</u>		<u>Town</u>		<u>Employee</u>		<u>Total</u>
2008	\$	1,798,072	\$	644,129	\$	2,442,201
		74%		26%		
2009		1,488,376		644,624		2,133,000
		70%		30%		
2010		1,675,605		707,033		2,382,638
		70%		30%		
2011		1,749,166		1,037,612		2,786,778
		63%		37%		
2012		(183,312)		837,516		654,204
		-28%		128%		
2013		296,562		892,876		1,189,438
		25%		75%		
2014		533,041		803,124		1,336,165
		40%		60%		
2015*		601,336		232,792		834,128
		72%		28%		

*Activity is presented as of September 30, 2014 to report the Town and employee fund balances prior to the Town joining the Mayflower Municipal Health Group as of October 1, 2014.

Current Status

The most important item for the Town now that they have entered the Mayflower Municipal Health Group is to have an audit of the health care trust completed prior to the end of fiscal year 2015 and with ample time to make financial decisions should the run off claims exceed the available fund balance which would require an appropriation from the Town to cover the excess.

As noted above, the Town has joined the Mayflower Municipal Health Group for health insurance activities which has commenced on October 1, 2014. The Town continues to be self-insured for dental activities.

The balance and activity of the Health Insurance Trust fund are properly reported on the financial statements and the employee/employer share of net position has been calculated and reported above.

Management Response - The Town will contract with our audit firm to perform an in depth review of the fund prior to the spring Town Meeting.

Other Material Weaknesses

- In previous management letters, we noted that there were not timely reconciliation procedures between the Accounting Office and all other Town Departments. The lack of timely reconciliations continued to be a material weakness in fiscal year 2014.
 - **Current Status** – We noted that a greater number of reconciliations were performed by Accounting personnel and various other Town Departments during fiscal year 2014. However, there were many accounts that were only reviewed after year end. We also noted that multiple correcting journal entries were required to properly state the June 30 general ledger balances for various receivable and revenue accounts. This occurs because of timely reconciliations not occurring or not following up on reconciling items identified while reconciling specific account balances. Assuming that the Town Accountant's Office works with these other Town Departments during 2015 to implement reconciliation processes and addresses any identified reconciling items in a timely manner, we would expect this material weakness to be resolved in 2015.

Management Response – The Town acknowledges that a greater number of accounts were reconciled for fiscal year 2014 and are currently working with departments on a monthly basis to add to this list.

- In fiscal year 2010, we observed an inordinate amount of unsupported journal entries being posted to the Town's general ledger. In fiscal year 2011, the number of unsupported journal entries were significantly reduced however even one unsupported entry is a weakness in internal control. In fiscal year 2012 and 2013, we were able to obtain support for all journal entries reviewed, however the number of journal entries were still at an unacceptable level. Departments must work to enter transactions correctly the first time and take the time to ask a question if the correct method is not initially known. Most of what we observed in reviewing the ledger is multiple correcting entries being used to correct a transaction initially entered incorrectly.

The next problematic issue is the purpose for these entries. The accounting system used by the Town, along with most systems, is designed to minimize the need for any journal entries. Recording the transaction properly and charging it to the correct account at its inception is the most efficient and accurate means of recording the Town's financial activity. For example, when a receipt is received it is entered into the system and credited to the correct revenue account/fund. When employees or vendors are paid the expenditure is to be charged to the account/fund that incurs the expense. The only need for a journal entry should be to correct errors, which should be minimal. If there is a need for a significant number of corrections to the original transactions there is a material weakness in the design of the accounting process. If the Accounting Office finds that journal entries are needed frequently, an immediate review of the policies and procedures surrounding the transaction type in question should be performed to isolate where the deviation from prescribed policies and procedures is occurring and what the correct fix should be. Until this process is changed then a material weakness will continue to exist.

- **Current Status** – The number of unsupported journal entries has continued to decrease in fiscal year 2014; however the number posted in 2014 was still at an unacceptable level. Until the Town is able to implement procedures to assure that transactions are entered into the general ledger correctly the first time and keep journal entries to a minimum, we would expect that this issue will remain as a material weakness.

Management Response – During fiscal year 2015, journal entries will be tracked and identified by department, both Town and School. A report will be distributed to the Department Heads, who will be required to review the issues with their staff. Additional training will be provided as warranted.

In previous fiscal years, management was not able to provide an accurate reconciliation between the authorized town meeting votes, the tax recap, budget transfers and the budget recorded within the general ledger. The Town is responsible for monitoring the approved budget and assuring that funds are available to cover the appropriations and that the level of spending is in line with the amounts authorized at town meeting. The lack of procedures in place to reconcile the approved votes to the tax recap and the general ledger can lead to a situation in which line items are overspent, unallowable costs are paid, and department heads do not have accurate information to monitor current operations.

- **Current Status** – During 2014, the Town did not provide a reconciliation of the town meeting votes, to the general ledger and the tax recap. The Town's budget should be of the highest importance and a reconciliation of the votes, to the ledger and ultimately to the tax recap should be performed after every town meeting and prior to submission of the tax recap for certification. The Town needs to complete a comprehensive reconciliation all through the year and make any appropriate adjustments to the ledger at least monthly. Until procedures to complete this reconciliation process on an ongoing basis are implemented this finding will continue to be a material weakness.

Management Response – During fiscal year 2015, spreadsheets have been created and will be maintained to properly reconcile the Town Meeting votes to the General Ledger and the Tax Recap.

- In previous management letters we noted, the Town does not have proper controls or reconciliation procedures in place to account for betterments. During fiscal years 2010 - 2013, numerous errors and double postings of activity and balances occurred to the betterment accounts maintained within the general ledger.
 - **Current Status** – During fiscal year 2014, no formal reconciliation procedures were implemented to reconcile the un-apportioned betterment accounts. Procedures were implemented to reconcile the apportioned betterments on a monthly basis. A reconciliation of the un-apportioned betterments was not completed during the year. The only way to eliminate this material weakness is to first design policies and procedures regarding the reconciliation process that identifies the persons responsible for each procedure. The next step is to implement the process.

Management Response – During fiscal year 2015, un-apportioned and apportioned betterments have been reconciled monthly. Currently, the Assessor's Office provides the un-apportioned betterment total to the Town Accountant to facilitate reconciliation with the General Ledger.

Summary

In summary, the objectives of an internal control structure are to safeguard the assets of the Town and provide reasonable assurance that transactions are executed in accordance with management's authorization and recorded properly in the Town's ledgers. The omission of one or more elements of internal control can compromise the Town's ability to obtain these objectives. We have concluded that the deficiencies noted above, individually and collectively, represent material weaknesses in the Town's system of internal control under standards established by the American Institute of Certified Public Accountants.

These deficiencies constitute being classified as material weaknesses because they represent significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Town's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Furthermore, we believe that the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

OTHER MATTERS

Prior Year Comments

Formalize Capital Asset Reporting

Prior Year Comment

The Town has previously relied on the advice and assistance of their audit firm to assist in maintaining its capital assets activity and detailed listing.

The Town has no procedures in place to account for fixed asset additions, deletions, disposals or transfers. Compliance with GASB #34 requires the Town to maintain a complete and accurate fixed asset listing.

Recommendation

We continue to recommend that management take on the responsibility to develop and implement procedures to track additions, deletions, disposals and transfers of fixed assets so that an accurate fixed asset listing in compliance with GASB #34 can be maintained.

Current Status

No fixed asset policies and procedures were implemented during fiscal year 2014.

Management's Response – The Town is currently in the process of purchasing a capital asset software program to be in compliance with GASB #34. It will be installed and implemented by the spring of 2015.

Preparation of the Schedule of Expenditures of Federal Award Programs

Prior Year Comment

As part of the annual Single Audit, the Town is required to prepare and file a Schedule of Expenditures of Federal Award Programs with the Federal Audit Clearinghouse and the Department of Revenue. To meet this reporting requirement the following information is necessary:

- Detailed information on all Federal Awards received.
- The agency in which the funds were received from.
- The Catalog of Federal Domestic Assistance number (CFDA #) of each grant.
- The amount of funds expended in the fiscal year under audit.

The Town was unable to provide this information for the years ended June 30, 2009 through 2014.

As a result there is a risk that the Town would not be able to meet filing requirements related to this information and that the information reported within the Report on Federal Award Programs could be inaccurate or not include all of the grants required to be reported. For the year ended June 30, 2014, we assisted the Town Accountant's Office in compiling the necessary information to meet all federal and state reporting requirements.

Recommendation

We continue to recommend that the Town Accountant's Office work with all department heads to develop a comprehensive listing of all Federal awards the Town receives, where they are being recorded in the general

ledger and establish procedures to allow for the compiling of this information in a timely manner each fiscal year. As part of the new fund and account structure being used, the Town should determine if it is possible to add a segment to the account structure that identifies federal and state grants.

Current Status

Management has not implemented procedures to account for all current and future federal grants and the related information required to complete the Schedule of Expenditures of Federal Award Programs.

Management's Response - During fiscal year 2014, departments were required to submit all grant documentation to Accounting. Detailed information including the agency and the amounts expended were maintained. Federal, State and Private Grants were segregated by revenue number according to type of grant and department. During fiscal year 2015, a spreadsheet will be maintained by Accounting listing the CFDA #, grant name, expenditures, and fund name to correspond with the General Ledger.

Automation of Compensated Absences

Prior Year Comment

In previous management letters we noted the records for accrued compensated absences are maintained primarily by Department Heads and the Town Administrators Office on individual employee cards. We believe there is a need for the Town to centralize the system of tracking and accruing compensated absences to ensure compliance with the multiple union contracts and other employment agreements. The present system does not minimize the risk that time earned and taken will be recorded properly.

The employee cards are sent to each employee on a semi-annual basis for their review. At fiscal year end, the cards are summarized on a spreadsheet for audit accrual purposes. However, the spreadsheet does not account for buyback provisions, vesting schedules or other adjustments necessary to determine the most accurate estimate of the required liability.

Since the Town has converted its payroll functions to Harpers, it is possible to record and monitor the compensated absences liability through the payroll system. This would provide greater internal control over accumulated sick and vacation time.

Recommendation

We continue to recommend that the Town implement a centralized system for recording and monitoring compensated absences and explore the benefits of utilizing the package available through the Harpers payroll system.

Current Status

During fiscal year 2014, there has been no change in the way the Town is accounting for compensated absences.

Management's Response - During fiscal year 2014, the Town attempted to utilize the current payroll system, but the system did not meet the needs of the Town. During fiscal year 2015, the Town will review other software programs for this specific purpose.

Withholding Accounts

Prior Year Comment

In previous management letter we noted the payroll withholding liability accounts do not appear to be reconciled on a monthly or quarterly basis. The balance in each withholding liability account should represent amounts withheld from employees but not yet paid out. This is usually one week to one month worth of withholding, depending on the type of withholding. These accounts should be reconciled on a regular basis to ensure all withholdings are being properly paid out and properly charged to the withholding account. During our audit we have noticed that many of the withholdings accounts have debit balances and many have not changed from the prior year.

Recommendation

We continue to recommend that procedures be implemented to ensure that correct amounts are paid from the withholding accounts and that the accounts are reconciled in a timely manner.

Current Status

During 2014, no reconciliation procedures were implemented regarding the payroll withholding accounts. We noted that many of the accounts either have debit balances or balances that have not changed since last fiscal year.

Management's Response - During fiscal year 2015, there will be a reconciliation process in place.

Internal Control Policies and Procedures Manual

Prior Year Comment

In previous management letters we noted that most departments do not maintain a formal internal control policy and procedures manual documenting day-to-day processing and controls. The Town is at risk if critical tasks cannot be completed due to an extended or unforeseen absence. A formal internal control policy and procedures manual will assist each department head in the training of new departmental employees thereby reducing the amount of time required away from the daily departmental operations.

Recommendation

We continue to recommend that each department head develop an internal control policy and procedures manual that includes proper reviews and approvals by management. The document should be written with sufficient detail to allow a new employee the ability to complete the task by reviewing its respective directions. This document should be updated for any system or policy changes. A master manual of all procedures should be maintained and stored in a secure location. In addition, all department heads should be familiar with all policies and procedures within their office and be able to complete all necessary tasks in order to sufficiently train employees.

Current Status

Various departments have started the process of documenting their policies and procedures. However, this process is continuing and management expects this comment to be resolved by the end of fiscal year 2016.

Management's Response – The Town acknowledges that the majority of the departments have established their policies and procedures. The Town anticipates that the remaining departments will have completed their policies and procedures by the end of fiscal year 2016.

Construction Deposits

Prior Year Comment

In previous management letters we noted various departments receive deposits from developers as surety accounts on building projects. The deposits are placed into a bank account, in which the Treasurer and the developer have signing authority. When a project is completed and the developer has satisfactorily fulfilled their obligation, or as phases are completed, the Board overseeing the project may vote to release funds to the developer. If the developer does not complete a project satisfactorily, the Board may vote to use the funds in the account to complete the project or compensate the Town for the insufficient work.

We noted that there are no reconciliation procedures between the various Boards, the Treasurer's Office and the Town Accountant's Office. This could lead to a situation in which monies have been paid out to a developer from the general fund and the monies were never transferred from the construction deposit account to replenish the Town. Therefore, there may be a transfer due to the general fund which would increase the free cash of the Town.

Current Status

We noted that formal reconciliation procedures were put in place during 2014 between the Town Accountant's Office, the Treasurer's Office and the Planning Department. However, there are still many old balances that the Town feels may have been released or overpaid to the vendors. The Planning Department was given the responsibility to write letters to the various vendors to try and resolve many of these balances. This was not completed in 2014.

Management's Response - Due to staffing issues within the Planning Department, this was not completed during fiscal year 2014. The Interim Town Planner will work on this issue in fiscal year 2015.

Community and Economic Development Authority (CEDA) Loan Program

Prior Year Comment

The CEDA office administers housing rehabilitation loans to residents of the Town of Wareham. There are two types of loan programs that this office administers which are based on income eligibility. An applicant that is considered to be very low income is eligible for a 15 year deferral loan which 1/15 of the principal is forgiven in each year until the 15 year period has expired. An applicant considered to be low/moderate income is eligible for a 15 year low interest loan in which a principal payment and 3% interest is due each year.

The detailed records of the CEDA office have not been reconciled to the Town Accountants detail since fiscal year 2009. Not reconciling the accounts can cause a situation where the Town could not collect the total loan owed. The Town could potentially lose out on program income which is used to help fund these loan programs.

Recommendation

We continue to recommend that the CEDA office reconcile detailed balances within the CEDA office and then with the Town Accountant. Procedures should be implemented to reconcile all balances on at least a quarterly basis.

Current Status

The CEDA Office has implemented updated procedures regarding the method in which the deferral loans are forgiven and has continued to reconcile their monthly activity. However, no procedures have been implemented to reconcile the activity or outstanding loan balances between the CEDA Office and the Town Accountant's Office.

Management's Response - During fiscal year 2015, this will be a priority in Accounting to reconcile CEDA loans to the General Ledger.

Fraud Risk Assessment

Prior Year Comment

In previous management letters we noted the opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Town perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Town's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the Town that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Town, its environment, and its processes.

The fraud risk assessment process should consider the Town's vulnerability to misappropriation of assets.

When conducting the self-assessment, questions such as the following can be considered:

- What individuals have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- What assets of the Town are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use.

- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.

Recommendation

We continue to recommend that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation.

Current Status

A fraud risk assessment program was not developed or implemented during fiscal year 2014.

Management's Response - During fiscal year 2015, the Town began to develop a Fraud Risk Assessment Program and anticipates implementation for fiscal year 2016.

Police Detail Receivables

Prior Year Comment

In previous management letters we noted there are no formal reconciliation procedures between the Police Department and the Town Accountant's Office regarding police detail receivables. The summary outstanding balance reported in the general ledger should be reconciled at least quarterly to the detail maintained by the Police Department. It is important to maintain an accurate receivable balance and detail listing so the Police Department can track down delinquent vendors prior to providing any further details. Also, by maintaining an accurate receivable listing, the Town can minimize the possibility of creating a permanent deficit that ultimately would have to be funded by the general fund.

As of June 30, 2014, there is a variance of approximately \$36,000 between the general ledger and the receivable listing provided by the Police Department. We also noted that many vendors are behind on making payments to the Town.

Current Status

The Police Department has worked to reconcile the current year detail activity. The Police Department and the Town Accountant's Office have implemented procedures to reconcile the outstanding receivable balance and determine the nature of the variance.

Audit of Health Insurance Plans

Prior Year Comment

In previous management letters we noted that the Town does not currently perform periodic audits of the health insurance enrollment to determine eligibility of the current subscribers. As a result, there may be individuals receiving health care benefits that are not eligible to be enrolled in the Town's health care plan. Having ineligible subscribers enrolled in the plan would have an adverse affect on health insurance premiums for the Town and eligible subscribers.

Current Status

Although not completed during fiscal 2014, with the Town's entrance into the Mayflower Municipal Health Group in early fiscal 2015, every employee receiving benefits was required to provide supporting documentation related to the health plan chosen and the subscribers enrolled.

Snow and Ice Appropriation

Prior Year Comment

The Town is allowed, under MGL, Chapter 44, Section 31D, to over-expend the budget for the removal of snow and ice, as long as the appropriation for each fiscal year is at least equal to the prior year's appropriation. Any deficits created from this are raised in the subsequent fiscal year.

The Town generally budgets the minimum amount for snow and ice removal based on the prior year's budget. Although this amount is difficult to predict, budgeting low each year causes the Town to raise substantial snow and ice deficits on the subsequent year's tax recap. Although the practice of under-budgeting for snow and ice removal is legal, it does not demonstrate prudent budgeting practices.

Current Status

The Town increased the total snow and ice budget for 2014 to \$492,000 from \$161,000 in 2013. This figure represents a good faith effort at appropriating the funds necessary to cover the costs of snow and ice removal.

Cost Allocation Plan between the Town and the School District

Prior Year Comment

In previous management letters we noted that certain Town-wide expenses such as employee benefits, treasury, accounting, retirement benefits, and various insurances are allocated to the School District using methodologies that have been in place for many years. The Department of Elementary and Secondary Education (DESE), which is the oversight agency for the District, requires a written agreement that documents the School Committee and Municipal Official's methodologies being used when allocating, distributing or assigning municipal expenditures to the District. While inquiring about this written agreement during our recent audit we were informed that a written agreement has never been drafted.

Recommendation

We continue to recommend that in order to comply with the DESE requirement and to ensure that allocations made to the School District are proper and agreeable between the parties; we recommend that a written agreement documenting the process be developed and implemented. It is important to understand that an allocated expense is never an exact amount when compared to a direct charge but instead should consistently calculate a reasonable charge that is fair and expected.

The benefit of implementing these recommendations will be the assurance that the general fund is not subsidizing the School's operations and that the Town has a documented sound policy that can be used to balance future budgets.

Current Status

An agreement between the Town and the School District regarding the general administrative portion of indirect charges (accounting, treasury, central data processing as examples) was formalized this year. Any other indirect charges deemed applicable to the School District are negotiated and agreed to during each budget cycle. However, we still feel this agreement should be formalized in writing.

Management's Response - With continued cooperation between the Town and School, this should be resolved in fiscal year 2016.

Accounting for Short-Term Debt

Prior Year Comment

In previous management letters we noted that short term notes are being recorded as revenue in the capital projects fund. Under the Uniform Municipal Accounting System (UMAS), the entry to record short term notes is to increase cash and notes payable. Recognizing revenue on short term borrowings could result in inaccurate management decisions because fund balance is then overstated by the amount of the borrowings. Correcting entries have been recorded and provided to the Town Accountant's Office.

In 2013, we also noted that the correct method of recording short-term debt may be misunderstood. Upon receiving the Town's general ledger, there was a debit BAN balance in the general fund and a credit balance equal to double the actual outstanding BAN balance in the capital projects fund. BAN's should not be recorded within the general fund and should be recorded as noted above within the applicable capital project fund.

Recommendation

We continue to recommend that the Town Accountant's Office record short term notes according to UMAS accounting and also assure that the activity is being posted to the correct account.

We also continue to recommend that the Town Accountant's Office and Treasurer's Office reconcile short term debt on at least a quarterly basis.

Current Status

During 2014 a new BAN was issued and was properly recorded. However, during 2014 there was a pay down of a BAN outstanding from the previous year which was recorded as a reduction of BAN's in the general fund as opposed to the capital projects fund. Correcting entries were posted to the general ledger prior to year end.

Management's Response – The Town acknowledges that a posting error occurred and was corrected prior to fiscal year end. The Town Accountant's Office and the Treasurer's Office will reconcile short-term debt quarterly.

Ambulance Receivables

Prior Year Comment

In previous management letters we noted that the Town's outstanding ambulance receivables were approximately \$819,000 at the end of fiscal year 2013. Of this amount, approximately \$559,000 was greater than 180 days old, and has been appropriately reflected in the financial statements as an allowance for uncollectible. The Town utilizes the services of a third party vendor for ambulance billing and collections and does not have a formal process for reviewing uncollected balances and either pursuing collection remedies or formally writing them off.

Recommendation

We continue to recommend that the Town implement policies related to the outstanding ambulance receivables and develop a policy that addresses additional collection processes available and develop a policy related to formally writing off the balances that are deemed uncollectible.

Current Status

A review of ambulance receivable detail was completed in 2014 and \$490,000 of \$1.1 million of outstanding accounts were abated. This leaves a variance of \$29,000 between the general ledger and the detail provided from the third party agency. However, a formal policy addressing these receivables on a go forward basis was not developed. If a policy is not developed to address old outstanding balances, the receivable balance will continue to grow and the Town will be forced to address in future fiscal years.

Management's Response - During fiscal year 2015, the Emergency Medical Services Director will develop a written ambulance receivable policy for approval by the Town Administrator.

General Long-Term Debt Account Group (GLTDAG)

Prior Year Comment

During our previous reviews of the GLTDAG fund, we noted the following:

- Long-term debt liability balances were posted as debit balances.
- Short-term debt that had been converted to long-term was not posted to the GLTDAG fund.
- Current year debt pay down activity was not recorded.

Reconciling the GLTDAG on a consistent basis will ensure that the general ledger accounts are correct and accurate and help to facilitate reconciliations between the Accounting Office and the Treasurer's Office.

Recommendation

We continue to recommend that the Town Accountant's Office and Treasurer's Office reconcile the GLTDAG on at least a quarterly basis.

Current Status

During 2014, adjustments were required to accurately state the GLTDAG fund. Current year issuances and pay-downs were not recorded within the fund until after fiscal year end.

Management's Response – During fiscal year 2015, the Town Accountant's Office will implement procedures to periodically reconcile the GLTDAG fund during the fiscal year.

Audit of Student Activity Funds

Prior Year Comment

In previous management letters we noted that Massachusetts General Law (MGL) Chapter 71, Section 47 requires that school districts maintain student activity funds in accordance with guidelines issued by the Department of Elementary and Secondary Education (DESE).

In 2014 the DESE published a comprehensive manual titled Agreed-Upon Procedures and Audit Guidelines – Student Activity Funds. Within each section of the manual is the DESE Policy Guidance, the MGL Requirement and DESE’s explanation of what type of policies, internal controls and audit procedures should be implemented in order to be in compliance with the law.

These guidelines can be found on the DESE website at the following address:

<http://www.doe.mass.edu/finance/accounting>

Current Status

The District has not completed an internal review of the student activity accounts for 2014. The District is working with their external auditors’ to conduct a review of these accounts before the end of the current school year.

Budgeted Estimated Revenues and Other Financing Sources

Prior Year Comment

In previous management letters we noted that the Town does not utilize the revenue budget function of its automated accounting system. Through this function, the Town can enter the estimated revenues for the fiscal year into the accounting system and produce reports that will measure budget versus actual revenue performance. The accounting system serves as the official books and records of the Town and because of this, management should be relying on the system to provide the necessary information to make managerial decisions. The Town monitors the departmental expenditures on a monthly basis through the use of the appropriation budget function, however, it is also important to monitor revenues to detect and correct problems on a timely basis.

Strictly relying on analysis conducted outside of the accounting system increases the risk of error or misstatement in reports and management decisions.

Recommendation

We continue to recommend that the Town utilize the revenue budget function of the automated accounting system and include revenue analysis reports as part of the monthly management reports produced from the system.

Current Status

The revenue budget and monthly revenue analysis reports were not utilized in 2014.

Management’s Response - As of fiscal year 2014, the Town maintains an off-line revenue analysis report. This report is reconciled monthly and distributed on a quarterly basis to the Board of Selectmen and Finance Committee. During fiscal year 2015, the Town will attempt to use the current in-house system.

Cross-Training

Prior Year Comment

Cross-trained employees ensure that someone will be able to perform all essential tasks required by each Department. Additionally, cross-trained employees become a valuable resource as their understanding of more aspects of Departmental operations increase. This understanding helps them to better fulfill their responsibilities and recommend improvements in other areas as well. Cross-training will also help the Town avoid the steep costs and operational disruptions involved with hiring outside help in the event of an employee's extended absence.

Current Status

The Town is reviewing the departmental organizational structure in order to determine where cross-training would best benefit the Town. The Town acknowledges this is an ongoing process

Allowance for Abatements

Prior Year Comment

In comparing the Town's balances in the allowance for abatement accounts with the Assessor's Office estimate of potential liabilities outstanding as a result of Appellate Tax Board cases, it appears that if all outstanding cases settle for amounts close to the Assessor's Office estimates that the Town would have a shortfall of approximately \$79,000 to cover approved abatements.

This would result in the Town having to appropriate funds to cover the shortfall.

We also noted that the Town Accountant's Office and the Assessor's Office are not reconciling the allowance for abatement accounts.

Current Status

We observed that the Town slightly increased the allowance for abatements raised in 2014 as well as the Assessor's Office had favorable outcomes in settling outstanding ATB cases. The Town Accountant and the Assessor's Office have reconciled the outstanding balances as of June 30, 2014.

Current Year Comments

Development of a Year-End Closing Schedule

Current Year Comment

The Town's year-end closing process has been consistently delayed each year because certain procedures were not performed in a timely manner. The areas in which delays resulted in inefficiencies related to producing closing entries, final trial balances, reconciliation schedules with various Town departments, account analyzes (which usually lead to adjustments), and other financial reports needed by management and the auditors. We noted that late journal entries were being recorded well into November. Also, once we had a chance to review the year-end trial balance multiple accounts were observed that had not been reconciled and required adjustment.

We believe that the year-end closing could proceed more quickly by developing a closing schedule that indicates all procedures that need to be performed, who will perform each procedure and when completion of each procedure is due and accomplished. The timing of specific procedures should be coordinated with the timing of management's or the auditor's need for the information. The due dates should be monitored by management to determine that they are being met and if not have the ability to react and adjust accordingly in a timely manner.

Recommendation

We understand that the closing process for the Town is somewhat complicated and dependent on gathering information from a number of sources. In addition, we recognize that the accounting staff responsible for the close is limited in number and that this limited staff must continue to complete on-going daily tasks without being able to completely focus on the annual close and the audit. We do however recommend that management should develop and monitor a year-end closing schedule that will ensure a more timely and complete close.

Management's Response – The Town anticipates hiring an Assistant Town Accountant in January 2015. The new staff member will allow the Town Accountant additional time to work on year end closing. During fiscal year 2015, the Finance Team has been meeting bi-weekly to discuss finance and scheduling issues.

Fund Deficits

Current Year Comment

While reviewing the year-end ledger and Town's free cash submission we observed that there are a significant amount of accounts and grant funds that are in deficit balances. These balances reduced the Town's available free cash figure by approximately \$311,000. These deficits could be due to posting errors or the fact that grant managers are not requesting reimbursements in a timely manner.

Recommendation

We recommend that the Town Accountant's Office review all deficit accounts and grants funds and determine if there are posting errors, reimbursements due the Town or other adjustments that need to be made to close out the deficits.

We also recommend that procedures be implemented to periodically review the general ledger and analyze any accounts or grants that are in a deficit balance on at least a quarterly basis and assure that reimbursement requests, where applicable, are submitted in a timely manner.

Management's Response - During fiscal year 2015, the Town Accountant has added monthly departmental grant reconciliations to the month end procedures. Department Heads are responsible for requesting reimbursements in a timely manner.

Recording of State Revenues and Cherry Sheet Charges

Current Year Comment

The Town receives a significant revenue stream from the State of Massachusetts and is required to pay certain charges back to the State, both of which are reported on the "Cherry Sheet". When the Town is developing their yearly budget these items impact both the estimated revenues and expenditures being budgeted for. The Town records the revenue and expenditure budgets at the gross amounts due. However, when the State remits payment to the Town they are often "net" of the related charges due. These amounts should be recorded gross in the general ledger to reconcile against the budgeted revenue and expenditure amounts. If left net in the general ledger, the revenue budget would show actual revenue as being under budget and the expenditure budget would also show as being under budget. Correcting entries have been reflected in the financial statements.

Recommendation

We recommend that the Town record all revenues and expenditures at their gross amounts not with-standing the method in which the State actually remits payment to the Town.

Management's Response - During fiscal year 2015, the Town will record all revenue and expense as gross amounts.

Other Postemployment Benefit Actuarial Valuation

Current Year Comment

The Town has met the requirements for the implementation of GASB Statement #45, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, and must acknowledge the requirements necessary to stay in compliance with the GASB and obtain the information necessary to complete the Town's annual audit. For financial reporting purposes, an actuarial valuation is required by the Town at least biennially. Consequently, the Town is required to have a new actuarial valuation dated July 1, 2014, in order to remain compliant with GASB Statement #45 for 2015 and 2016.

In May 2014, the GASB issued an exposure draft for a new GASB Statement that will replace Statement #45. This new GASB will require the Town to recognize the entire unfunded OPEB liability on the Statement of Net Position and to report an OPEB expense in the Statement of Activities which would be calculated by an Actuary through a comprehensive measurement process. There will also be additional note disclosures and trend schedules included in the required supplementary information. This statement is currently scheduled to be finalized by June of 2015 and will be effective for fiscal year 2018. Compliance with the new requirements will require a more in-depth analysis of the changes in the unfunded OPEB liability from year to year and will require update procedures to be performed in years when a full actuarial valuation is not completed.

Recommendation

We recommend that the Town become familiar with the upcoming reporting requirements and work with the actuary to remain compliant with GASB Statement #45 and to prepare for the upcoming reporting changes.

Management's Response - During fiscal year 2015, the Town will be contracting with a consultant to provide this OPEB actuarial valuation in time for the 2015 audit.

Future Governmental Accounting Standards Board (GASB) Statements for Pensions and OPEB

Current Year Comment

The GASB has issued new pronouncements that will significantly affect the accounting and reporting requirements for Pensions and Other Postemployment Benefits (OPEB). These new standards will start to phase in during fiscal year 2015 and will substantially impact your financial statements and will also affect the requirements for accumulating the necessary data to meet the reporting requirements.

The new standards that have been issued and their effective dates are as follows:

- The GASB issued Statement #67, *Financial Reporting for Pension Plans*, an amendment of GASB Statement No. 25, which is required to be implemented in 2015.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27, which is required to be implemented in 2015.

As discussed in the previous comment, the GASB has also issued 2 exposure drafts which will similarly affect accounting and financial reporting for OPEB Plans. The GASB is encouraging earlier application of these standards.

To briefly summarize these new standards –

- GASB #67 and #68 will substantially change the reporting for pension liabilities and expenses. Changes in the pension liability will be immediately recognized as pension expense or reported as deferred outflows/inflows of resources depending on the nature of the changes. Substantial changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes will be required. Current actuarial methods may continue to be used to determine funding amounts. Employers will report in their financial statements a *net pension liability (asset)* determined annually as of the fiscal year end. *Net pension liability (asset)* equals the total pension liability for the plan net of the plan net position. Pension liability is the actuarial present value of projected benefits attributed to past service, and plan net position is the accumulated plan assets net of any financial statement liabilities of the plan.
- Similar standards will be issued related to unfunded OPEB liabilities.

As a result of the new standards, the Town should expect to record significant pension and OPEB liabilities in the future and should begin planning to be prepared to implement the new standards.

Management's Response – Management will work with their auditor's to assure compliance with the upcoming GASB Statements.