

***TOWN OF WAREHAM, MASSACHUSETTS***

***REPORTS ON FEDERAL AWARD PROGRAMS***

***YEAR ENDED JUNE 30, 2013***

**TOWN OF WAREHAM, MASSACHUSETTS**  
**REPORTS ON FEDERAL AWARD PROGRAMS**  
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## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

### **Independent Auditor's Report**

To the Honorable Board of Selectmen  
Town of Wareham, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Wareham, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Wareham's basic financial statements, and have issued our report thereon dated April 2, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town of Wareham's internal control over financial reporting (internal control) to determine the 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'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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting 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 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. *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 and questioned costs, as item 2013-001, to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Wareham's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of

our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Powers + Sullivan, LLC*

April 2, 2014



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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON  
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY  
OMB CIRCULAR A-133**

**Independent Auditor's Report**

To the Honorable Board of Selectmen  
Town of Wareham, Massachusetts

**Report on Compliance for Each Major Federal Program**

We have audited the compliance of the Town of Wareham, Massachusetts with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2013. The Town of Wareham's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Town of Wareham's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Wareham's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of Wareham's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Town of Wareham complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

## Report on Internal Control Over Compliance

Management of the Town of Wareham, Massachusetts is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Wareham's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Wareham's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Wareham, Massachusetts as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Wareham's basic financial statements. We issued our report thereon dated April 2, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Powers + Sullivan, LLC*

April 2, 2014

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE YEAR ENDED JUNE 30, 2013

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:		
<u>Passed through Massachusetts Department of Elementary and Secondary Education:</u>		
Non-Cash Assistance (Commodities):		
National School Lunch Program	10.555	\$ 86,475
Cash Assistance:		
School Breakfast Program	10.553	198,310
National School Lunch Program	10.555	574,812
Special Milk Program for Children	10.556	1,029
Fresh Fruit and Vegetable Program	10.582	24,064
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>884,690</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
<u>Direct Programs:</u>		
Community Development Block Grants - State's Programs and Non-Entitlement Grants in Hawaii	14.228	<u>1,204,475</u>
U.S. DEPARTMENT OF CRIMINAL JUSTICE:		
<u>Direct Award:</u>		
Bulletproof Vest Partnership Program	16.607	4,370
<u>Passed through State Department of Fish, Wild Life and Environmental Law Enforcement:</u>		
Clean Vessel Act	15.616	16,973
<u>Passed through Executive Office of Public Safety:</u>		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	<u>22,376</u>
TOTAL U.S. DEPARTMENT OF CRIMINAL JUSTICE		<u>43,719</u>
NATIONAL ENDOWMENT FOR THE HUMANITIES		
<u>Passed through Massachusetts Board of Library Commissioners</u>		
Library Services and Technology Act Special Mini-Grant Program	45.310	<u>8,234</u>
U.S. DEPARTMENT OF EDUCATION:		
<u>Passed through Massachusetts Department of Elementary and Secondary Education:</u>		
Title 1 Grants to Local Educational Agencies	84.010	598,362
Special Education Grants to States	84.027	733,580
Twenty-First Century Community Learning Centers	84.287	346,671
Education Technology State Grant	84.318	19,000
Mathematics and Science Partnerships	84.366	270
Improving Teacher Quality State Grants	84.367	212,819
ARRA - Race to the Top	84.395	162,946
<u>Passed through State Department of Early Education and Care:</u>		
Special Education Preschool Grants	84.173	22,347
Income Eligible Contracts	93.UNK	<u>58,085</u>
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>2,154,080</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:		
<u>Passed through the Massachusetts Emergency Management Agency</u>		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	<u>84,888</u>
TOTAL FEDERAL AWARD EXPENDITURES		<u>\$ 4,380,086</u>

See notes to schedule of expenditures of federal awards.



**Note 1 - Definition of Reporting Entity**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Town of Wareham, Massachusetts. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies is included on the schedule.

**Note 2 - Significant Accounting Policies**

The accounting and reporting policies of the Town of Wareham, Massachusetts, are set forth below:

(a) Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards is presented on the cash basis of accounting. Accordingly, grant revenues are recognized when received and expenditures when paid.

(b) Cash Assistance - School Breakfast and Lunch Program - Program expenditures represent federal reimbursement for meals provided during the year.

(c) Non-Cash Assistance (Commodities) – School Lunch Program – Program expenditures represent the value of donated foods received during the year.

**Note 3 - Program Clusters**

In accordance with Subpart A §\_105 of OMB Circular No. A-133, *Audits of States, Local Governments and Non Profit Organizations*, certain programs have been clustered in determining major programs. The following represents the clustered programs:

<u>Name of Cluster/Program</u>	<u>CFDA Number</u>
<b>Child Nutrition Cluster</b>	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Milk Program for Children	10.556
<b>Special Education Cluster</b>	
Special Education Grants to States	84.027
Special Education Preschool Grants	84.173

**A. Summary of Auditor's Results**

1. The auditor's report expresses an unmodified opinion on the financial statements of the Town of Wareham, Massachusetts.
2. A material weakness relating to the audit of the financial statements is reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the basic financial statements of the Town of Wareham, Massachusetts, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the Town of Wareham, Massachusetts, expresses an unmodified opinion.
6. There were no audit findings relative to the major federal award programs for the Town of Wareham, Massachusetts.
7. The programs tested as major grants include:

<u>Program Title</u>	<u>CFDA Number</u>
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Milk Program for Children	10.556
Community Development Block Grants – State's Programs and Non-Entitlement Grants in Hawaii	14.228
Twenty-First Century Community Learning Centers	84.287

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Town of Wareham, Massachusetts, was determined to be a high-risk auditee.

**B. Findings-Financial Statements Audit****2013-001: Material Weakness**

*Condition and Criteria:* The following deficiencies exist within the Town's system of internal control:

**Health Insurance Trust Fund****Comment**

The Town established a Health Insurance Trust Fund in FY 2005 in which the Town and Employees' retain the risk of providing insurance. Massachusetts General Laws Chapter 32B, Section 3A establishes the requirements on how these funds must operate. A brief summary of the key elements of Wareham's Trust from inception to the end of FY 2013 are as follows:

- The agreement between the Town and employees will establish a funding split where each party agrees to contribute its share of premiums to the Trust. For Wareham, the employer's share is 75% and the employee's share is 25%. Therefore, if the monthly premium is \$1,000 the employee must contribute \$250 and the Town \$750. Commencing 7/1/13 FY 2014, the employer and employee funding splits will change to 70%/30% for 1 year and 67.5%/32.5% for fiscal years 2015 through 2019. With the new percentage splits, the ending split at June 230, 2013 will be considered the beginning balance and an allocation of each subsequent year's activity must be calculated at the new percentages in order to determine the correct ending balance percentages.
- The net position or net liabilities are shared by both the Town and employees. If the 25/75 split is determined not to be in balance then the Town must take measures to periodically rebalance the fund.
- For the first four years of operations, the Trust the Town did not properly account for the activity and was not sure if the fund was in balance. An audit of the activity from inception to the end of FY 2008 found that of the total fund balance of \$2,442,201, the fund was out of balance by only \$44,772. The employees had contributed a little more than their required 25% share.
- Each succeeding year has been audited and the amount out of balance has increased significantly.
- In FY 2009, the Town did not properly match the employee's contribution and the employees had contributed \$103,727 more than their required share for the year. At the end of the fiscal year the cumulative unmatched employee contribution was \$148,499.
- In FY 2010, the Town did properly match the employee's contribution. At the end of the fiscal year the cumulative unmatched employee contribution remained the same at \$148,499.
- In FY 2011, the Town budgeted exactly \$5,500,000 in the General Fund and only matched the employees' contribution up to the \$5.5 million. Therefore, the Town did not properly match the employees' contribution and the employees' had contributed \$306,058 more than their required share for the year. At the end of the fiscal year, the cumulative unmatched employee contribution was \$454,557.
- In FY 2012, the Town reduced its General Fund budget from \$5.5 million in FY 2011 to \$4,119,235, a reduction of \$1,380,765. The Town authorized two months of a "premium holiday" for both the employer and employee which resulted in a decrease in actual contributions of \$1,695,695 from FY 2011. This reduction along with increased expenses saw an overall decrease in net position of \$2,132,574.

- The Town not only did not properly match the employees' contribution, the ending balance for the Town is a negative (\$183,312). Therefore, the employees' year-end surplus balance of \$837,517 was used to support the Town's deficit.
- In FY 2013, The Town increased its budget from \$4,119,235 in FY2012 to \$5,702,865, an increase of \$1,583,630. During the year, the Town made an additional contribution of \$1,284,829 (which represented the FY 2012 certified free cash balance), bringing the total General Fund contribution to \$6,897,694. The increased budget, along with the additional contribution was attributable to the \$535,234 increase in net position. Although the Town's portion of net position now has a surplus of \$296,562, the employer and employee portions remain out of balance.

In order to rectify this serious financial short-fall the Town must take actions to resolve this deficit. The first option to rebalance the fund would require the Town to match the employee surplus of \$892,876 (25%) by voting a General Fund appropriation of \$2,382,066 which will leave the Town with net position of \$2,678,628 (75%). The second option to rebalance the account would require granting an employee only premium holiday for \$794,022. This would leave the employer net position of \$296,562 (75%) and employee net position of \$98,854 (25%).

At the end of fiscal year 2013, once certified by the Department of Revenue, the Town will have approximately \$1,081,000 of free cash. If the Town chose option one and made the required contribution to rebalance the fund, the Town's certified free cash is short by approximately \$1,301,000. A possible third option is to vote the transfer of certified free cash into the Trust which will leave the employer's net position balance of \$1,377,562 and authorize an employee only holiday of \$433,689 which will result in an ending employee balance of \$459,187. Implementing option three will result in the required 75/25 split. These options will only correct the FY 2013 problem.

The Town will need to contribute its full share in FY 2014 and all future years in order to prevent future deficits. The Town's fiscal year 2014 health insurance appropriation is budgeted at \$6,714,709 which is approximately \$1,000,000 more than was originally budgeted in the previous fiscal year. However, when considering the Town's FY2013 supplemental contribution of \$1,284,829, the FY2014 appropriation is \$273,000 lower than the total contributed in fiscal year 2013.

However, based on the fiscal year 2013 actual expenses along with the rising costs of healthcare, this appropriation will not be sufficient to match the employee contribution and cover the fiscal year 2014 expenditures in order to maintain the integrity of the 75/25 split. We expect this to remain a problem in FY 2014.

The following tables show the trend of both actual employer and employee contributions made and the ending split in fund balance for the last six fiscal years.

**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

**Schedule of Employer and Employee Fund Balances**

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

In addition to the Town not making the required contributions to rebalance the fund, the Town's accounting for the Trust Fund has continued to be seriously deficient from inception. Although significant accounting improvements have been made since fiscal year 2012, we still consider the current process to be a material weakness in internal controls.

Recommendation

The Town must find a short and long-term solution to funding the Trust with its required contributions. The accounting ledgers and procedures must be updated and policies documented that will allow for interim reporting to occur that will properly measure the financial condition and contribution levels throughout the fiscal year. Management must make the Board of Selectmen and Finance Committee aware of any potential fund or contribution deficit early in the fiscal year. Below is a summary of the changes required in the accounting for the Town's self-insured health insurance activities:

The Town must find a short and long-term solution to funding the Trust with its required contributions. The accounting ledgers and procedures must be updated and policies documented that will allow for interim reporting to occur that will properly measure the financial condition and contribution levels throughout the fiscal year. Management must make the Board of Selectmen and Finance Committee aware of any potential fund or contribution deficit early in the fiscal year. Below is a summary of the changes required in the accounting for the Town's self-insured health insurance activities:

1. The Town is not making their required contribution to the fund and as a result the Town's balance is 25% of the total fund at June 30, 2013; this needs to be 75% to have the correct funding split. This fund must be treated in effect the same way as if the Town was premium based. If the Town was receiving a bill each month for the total premiums they would not have the option of sending something less than the required employer premium. The Town is in effect borrowing from the employees' balance to fund current claims.
2. Due to the Town's percentage split of health insurance changing for fiscal year 2014 and beyond, the balance split as of the end of fiscal year 2013 will be considered the beginning balance and the new percentage split must be calculated on a go forward basis to properly determine the ending employer and employee balances.
3. Numerous adjustments were required to properly state the activity. Procedures must be put in place to properly account for all required types of monthly contributions.
4. The Town's chart of accounts needs to be expanded to properly track and account for all expenses. At a minimum, expense accounts should be setup for health care level premiums to each vendor, catch up contributions by vendor, dental care costs, legal services, consultant fees, etc.
5. The Town's chart of accounts needs to be expanded to properly track and account for all revenues. At a minimum, there should be a revenue account for each type of activity that is posted to the fund such as; employee contributions; employer contributions; stop loss reimbursements; drug subsidies; investment income; COBRA payments. Although the new chart has some of the mentioned revenue accounts, procedures must be implemented to assure that the accounting for each type of revenue is correct and is reconciled to supporting documentation on at least a quarterly basis.
6. The Town should be maintaining this fund on the accrual basis of accounting and therefore recording and updating each year; Incurred But Not Reported Claims; prepaid employee withholdings; working capital deposits; any receivables/liabilities for amounts due/owed related to the difference between level funded premiums paid and the actual claims paid.
7. The Town should be aware that as part of Obamacare, all employers that self-insure their health insurance activities will be subject to a health insurance audit every two years.

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.

### **Other Material Weaknesses**

- For fiscal years 2009 - 2012, many of the general ledger control accounts did not reconcile with the subsidiary ledgers. We noted numerous posting errors due to establishing automatic entries that did not link ledger accounts properly. We also found other issues within the general ledger such as journal entries being posted directly to the control accounts, beginning balances improperly rolled forward and many funds whose reporting was inadequate and unreliable due to linking issues between account types and funds which caused the reporting to be undependable to make informed management decisions on.
  - Current Status – During fiscal year 2013, the Town hired a full-time Town Accountant. We noted that various link issues existed during the fiscal year; however, the Town Accountant identified these issues and corrected them prior to commencement of the fiscal year 2013 audit. We did not identify any direct postings to control accounts. We consider this matter to be resolved.
- 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 2013.
  - Current Status – We noted that reconciliations were performed by Accounting personnel and various other Town Departments during fiscal year 2013. However, there were still some departments such as Assessing, CEDA, and Planning, whose accounts were not reconciled during the fiscal year. Assuming that the Town Accountant's Office works with these other Town Departments during fiscal year 2014, we would expect this material weakness to be resolved in fiscal year 2014.
- 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, 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 2013; however the number posted in 2013 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.
- As noted in previous management letters, cash reconciliations between the Treasurer's records and the general ledger have not occurred for fiscal years 2010 and 2011. During fiscal year 2012, the consulting firm hired to act as the Town Accountant worked to reconcile general ledger cash to the Treasurer's records for each month through their contract with the Town. Management was working to implement monthly reconciliation procedures subsequent to their departure. The Accounting Office has been working with the Treasurer's Office to implement monthly cash reconciliations.
  - Current Status – The Town hired a full-time Town Accountant during fiscal year 2013. The Town Accountant's Office and Treasurer's Office have implemented procedures to ensure that cash reconciliations occurred monthly during fiscal year 2013 and on an ongoing basis. We consider this matter to be resolved.
- In previous management letters, we noted that receivable reconciliations were not performed between the Collector's records and the general ledger during fiscal years 2010 and 2011. For fiscal year 2012, the process of reconciling the receivables occurred timely some months of the fiscal year but not consistently. Multiple reconciliations and their required adjustments were still being recorded in November and December of 2012. Receivable reconciliations must be performed on a monthly basis and reconciling items need to be researched and corrected timely. Reconciling both the activity and the ending balances of the accounts receivable is an integral internal control procedure over the most significant revenue sources of the Town. This lack of timely reconciliations 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 may occur and not be detected within a timely period by employees in the course of their normal duties. In simpler terms, the Town's ability to obtain the objectives of a proper system of internal controls is inhibited. Furthermore, the Town has lost the ability to ensure that key assets and revenue sources are adequately safeguarded.
  - Current Status – During fiscal year 2013, the Town Accountant's Office and Collector's Office have implemented procedures to ensure that receivable reconciliations occur monthly. We consider this matter to be resolved.
- 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. During 2012, we were provided with a schedule that reconciled the town meeting votes to the general ledger; however, reconciliation to the tax recap was not performed. 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 fiscal year 2013, The Town hired consultants to assist them with completing the tax recap and preparing a schedule that reconciled the town meeting votes to the general ledger and to 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 fiscal year and make any appropriate adjustments to the ledger at least monthly. Due to the fact that this reconciliation was completed by a consultant for fiscal year 2013, the Town will need to either outsource this process every fiscal year or implement internal procedures to prepare this reconciliation. Until procedures to complete this reconciliation process on an ongoing basis are implemented this finding will continue to be a material weakness.
- 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 - 2012, numerous errors and double postings of activity and balances occurred to the betterment accounts maintained within the general ledger.
    - **Current Status** – During fiscal year 2013, no formal reconciliation procedures were implemented to reconcile the betterment accounts. A reconciliation of the apportioned betterments was completed at fiscal year-end only. A reconciliation of the un-apportioned betterments was not completed during the fiscal 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.

*Cause:* Lack of procedures in place to obtain the objectives of a system of internal control as defined above.

*Effect:* The Town is unable to provide reasonable assurance that assets are properly safeguarded and transactions are executed in accordance with management's authorization and recorded timely and properly in the general and subsidiary ledgers.

*Auditors' Recommendation:* We recommend that the Town implement a system of internal control policies and procedures to insure that all of the above noted material weaknesses are corrected in a timely manner.

*Current Status:* The Town has been working to correct the material weaknesses as noted above. Please see the information above for the current status of each material weakness as of June 30, 2013.

**C. Findings and Questioned Costs-Major Federal Award Program Audit**

None

**D. Prior Year Findings and Questioned Costs****2010-001: Material Weakness**

Please refer to section B. Findings-Financial Statements Audit for an update of all material weaknesses reported in the prior year Reports on Federal Award Programs.

**U.S. DEPARTMENT OF AGRICULTURE****Questioned  
Costs**

School Breakfast Program	10.553
National School Lunch Program	10.555
Special Milk Program for Children	10.556

None

**2012-001:**

**Condition and Criteria:** OMB Circular A-133, "Verification of Free and Reduced Price Applications" requires the local education agency (LEA) to verify the current free and reduced price eligibility of households selected from a sample of applications that have previously been approved for free and reduced price meals. The households' eligibility status should be updated in the Towns records based on the results of the verification testing.

**Cause:** The Town did not follow through with the verification process and adjust the status of households that did not meet the income requirements to be classified as Free or Reduced.

**Effect:** The Town is not in compliance with the grant requirements.

**Auditors' Recommendation:** We recommend the Town implement procedures to adjust a households' status of "Free or Reduced" based on the results of the verification testing.

**Current Status:** Procedures were implemented to correct this comment. This comment is considered resolved.

**U.S. DEPARTMENT OF EDUCATION****Questioned  
Costs**

ARRA – Race to the Top	84.395
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None

**2012-002:**

**Condition and Criteria:** OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments" requires grantees to maintain documentation of employee time and effort that has been charged to federal awards. If 100% of an employee's salary is charged to a federal award, a grant recipient is required to maintain semi-annual certifications stating that 100% of the employee's time was spent working on grant activities. If less than 100% of an employee's salary is charged to a federal award, a grant recipient is required to maintain monthly personnel activity reports documenting 100% of the employee's time.

*Cause:* The District did not maintain semi-annual certifications or personnel activity reports for employee salaries charged to the federal awards programs.

*Effect:* The Town is not in compliance with the grant requirements.

*Auditors' Recommendation:* We recommend that the District implement procedures that will comply with OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments".

*Current Status:* Procedures were implemented to correct this comment. This comment is considered resolved.