

TOWN OF WAREHAM, MASSACHUSETTS

REPORTS ON FEDERAL AWARD PROGRAMS

YEAR ENDED JUNE 30, 2014

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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, 2014, 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 December 5, 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 2014-001, 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

December 5, 2014



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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON
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, 2014. 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, 2014.

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, 2014, 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 December 5, 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

December 5, 2014

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

<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	\$ 75,504
Cash Assistance:		
School Breakfast Program	10.553	204,507
National School Lunch Program	10.555	576,211
Special Milk Program for Children	10.556	958
Summer Food Service Program for Children	10.559	41,209
Fresh Fruit and Vegetable Program	10.582	26,962
TOTAL U.S. DEPARTMENT OF AGRICULTURE		925,351
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
<u>Passed through Massachusetts Department of Housing and Community Development:</u>		
Community Development Block Grants - State's Programs and Non-Entitlement Grants in Hawaii	14.228	1,292,083
U.S. DEPARTMENT OF JUSTICE:		
<u>Direct Award:</u>		
Bulletproof Vest Partnership Program	16.607	4,280
<u>Passed through State Department of Fish, Wild Life and Environmental Law Enforcement:</u>		
Clean Vessel Act	15.616	10,477
<u>Passed through Executive Office of Public Safety:</u>		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	21,664
TOTAL U.S. DEPARTMENT OF JUSTICE		36,421
U.S. DEPARTMENT OF TRANSPORTATION:		
<u>Passed through the Massachusetts Emergency Management Agency:</u>		
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	1,430
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	767
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	621,385
Special Education Grants to States	84.027	722,118
Twenty-First Century Community Learning Centers	84.287	544,216
Improving Teacher Quality State Grants	84.367	170,327
ARRA - Race to the Top	84.395	124,134
<u>Passed through Massachusetts Department of Early Education and Care:</u>		
Special Education Preschool Grants	84.173	23,323
Income Eligible Contracts	93.UNK	87,719
TOTAL U.S. DEPARTMENT OF EDUCATION		2,293,222
U.S. DEPARTMENT OF HOMELAND SECURITY:		
<u>Passed through the Massachusetts Emergency Management Agency:</u>		
Emergency Management Performance Grants	97.042	4,161
TOTAL FEDERAL AWARD EXPENDITURES		\$ 4,553,435

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>
Child Nutrition Cluster	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Milk Program for Children	10.556
Special Education Cluster	
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 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
Title 1 Grants to Local Educational Agencies	84.010
Special Education Grants to States	84.027
Special Education Preschool Grants	84.173
ARRA – Race to the Top	84.395

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**2014-001: Material Weakness**

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

Health Insurance Trust Fund**Comment**

The Town 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 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
2014		533,041 40%	803,124 60%	1,336,165
2015*		601,336 72%	232,792 28%	834,128

*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.

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, 2014.

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

None

D. Prior Year Findings and Questioned Costs

2013-001: 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.