

TOWN OF WAREHAM, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2015

Powers & Sullivan, LLC

Certified Public Accountants



100 Quannapowitt Parkway

Suite 101

Wakefield, MA 01880

T. 781-914-1700

F. 781-914-1701

www.powersandsullivan.com

To the Honorable Board of Selectmen
Town of Wareham, Massachusetts

In planning and performing our audit of 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, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures 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.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

We will review the status of these comments 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 is not intended to be and should not be used by anyone other than these specified parties.

Powers + Sullivan, LLC

March 15, 2016

TOWN OF WAREHAM, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2015

TABLE OF CONTENTS

PAGE

Material Weakness.....	1
Inadequate Design of Internal Control Over Significant Accounts and Transaction Types.....	2
Health Insurance Trust Fund	2
Other Material Weaknesses.....	3
Other Matters	5
<i>Prior Year Comments</i>	6
Formalize Capital Asset Reporting	6
Preparation of the Schedule of Expenditures of Federal Award Programs	6
Automation of Compensated Absences	7
Withholding Accounts	8
Internal Control Policies and Procedures Manual.....	8
Construction Deposits	9
Community and Economic Development Authority (CEDA) Loan Program.....	10
Fraud Risk Assessment	10
Town and the School District	11
Accounting for Short-Term Debt	12
Ambulance Receivables	12
General Long Term Debt Account Group	13
Audit of Student Activity Funds	13
Budgeted Estimated Revenues and Other Financing Sources	13
Development of a Year-End Closing Schedule	14
Fund Deficits	15
Recording of State Revenues and Cherry Sheet Charges	15
Other Postemployment Benefit Actuarial Valuation.....	16

<i>Current Year Comments</i>	16
Future Government Accounting Standards Board (GASB) Statements for Pensions and OPEB.....	16

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 had previously 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.

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 recommended 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.

- Current Status - The Town contracted to have the recommended final review of the trust fund completed in order to determine the cash flow needs related to the run-off health claims. As of June 30, 2015, the Town's run-off claims are completed and the Town is working to determine the appropriate use of the remaining fund balance in the health claims trust related to health insurance activities. This material weakness is considered resolved.

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.
 - Current Status – During 2015, the Town Accountant's Office worked to develop monthly reconciliation procedures with supporting Town Departments. This material weakness is considered resolved.
- In previous years we observed an inordinate amount of unsupported journal entries being posted to the Town's general ledger. 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 2015. The School Department implemented a new computer system and there were a number of journal entries required to reclassify incorrectly posted amounts as the School began working with the new system, these adjustments would be expected to be significantly reduced moving forward. However, overall Town Departments are working to assure that amounts are posted correctly the first time and minimize the number of correcting journal entries required. This material weakness is considered 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. 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 2015, the Town implemented procedure to complete and provide a reconciliation of the approved budget votes to the general ledger and also to the tax recap. This material weakness is considered resolved.

- 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 - 2014, numerous errors and double postings of activity and balances occurred to the betterment accounts maintained within the general ledger.
 - Current Status – During fiscal year 2015, both apportioned and un-apportioned betterments were reconciled with only minor variances. We noted that the Town Accountant's Office and the Assessor's Office have been reconciling the accounts on a monthly basis. This material weakness is considered resolved.

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.

Current Status

The Town implemented the use of fixed asset software to track additions, deletions, disposals and depreciation during 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

The Town Accountant's Office has started tracking CFDA#'s for federal School grants. This information should be included as part of the fund names or an account number segment in the general ledger so a report can be run of all federal expenditures. This requirement extends to all federal grants of the Town, not just education grants. 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 Response

All federal grants are tracked on excel. Adding the CFDA#'s to the grant names would make the account name too cumbersome for day to day accounting activity. The Town Accountant's Office will explore adding a segment to the account number string. In the immediate timeframe the Town Accountant's Office will work to assure that all federal grants of the Town are captured for federal reporting.

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 their payroll system.

Current Status

The Town has not found a stand alone electronic module that would properly account for sick and vacation balances. The Town's payroll service contract expired at the end of 2015 and a requirement to provide sick and vacation balance tracking has been added to the RFP. Management expects this comment to be resolved in 2016.

Management Response

The Town signed a three year contract with Harper's Payroll Services. The new contract stipulates that the payroll service must provide a software program for electronic compensated absence tracking.

Withholding Accounts

Prior Year Comment

In previous management letters 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 2015, the Town Accountant's Office implemented reconciliation procedures regarding the payroll withholding accounts. We noted however, that a number of accounts still exist with debit balances or balances that have not changed since last fiscal year. These accounts should be reviewed and cleaned up. This process is even more important now that the Town is moving to premium based health and dental insurance, this will have the effect of increasing the balances in the withholding accounts as premiums are withheld and paid out periodically.

Management Response

The Town Accountant will review these accounts and have them reconciled by fiscal year end.

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 Response

The Town Administrator is in the process of hiring an Assistant Town Administrator/HR Director. The documentation of policies and procedures and creation of a master manual will be one of the top priorities of this position.

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.

Recommendation

We continue to recommend that formal reconciliation procedures be implemented and conducted on at least a quarterly basis.

Current Status

A reconciliation of the outstanding balances occurred during 2015 between the Town Accountant's Office, Treasurer's Office and the Planning Office. However, the Planning Office did not send letters to all vendors with outstanding construction deposits to determine their validity. The Town Planning Department is in the process of hiring new clerical staff and this responsibility has been included in the job description in order to assure that the reconciliations and confirming of balances occurs timely in the future.

Management Response

The Planning Office will send the required letters to vendors in order to determine the validity of the outstanding deposits. Quarterly reconciliation procedures will continue on a go forward basis.

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 Town Accountant's Office worked to reconcile the activity and outstanding CEDA loan balances to the general ledger. However, formal periodic reconciliation procedures between the CEDA Office and the Town Accountant's Office have not been implemented.

Management Response

The Town has contracted with the firm COG, Inc. to serve as interim CEDA Director. The Town will work with COG, Inc. to implement formalized periodic reconciliation procedures with the Town Accountant's Office.

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.

Current Status

The Board of Selectmen adopted a Fraud Policy and a committee was formed to meet with and assess departmental risks regarding cash controls and other potential fraud risk areas. The Town expects formal departmental risk assessments to be conducted during 2016.

Management Response

The Board of Selectmen have established a Fraud Policy and the Fraud Risk Assessment Team will meet with each department throughout the year. The results of each departmental audit will be shared with the Town Administrator and each respective department head.

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

The Town Administrator has worked with the Superintendent and School Business Manager to create a spreadsheet that tracks and shows allocations of expenditures made on behalf of the School District by the Town. This document is used for the DESE year-end report and to assist in determining indirect charges for grants and other school related functions.

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.

Current Status

BAN activity was properly recorded and reconciled between the Town Accountant's Office and the Treasurer's Office during 2015.

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.

Current Status

The Board of Selectmen approved an Ambulance Receivable Collection/Write Off policy during 2015. The Town Administrator and EMS Director met and agreed to write off uncollected balances greater than 180 days old. This equaled \$458,736.12 and was approved by the Board of Selectmen. These procedures will continue to occur each year.

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.

Current Status

During 2015, the Town Accountant's Office and the Treasurer's Office have reconciled the balances maintained in the GLTDAG fund and have developed a spreadsheet to facilitate a monthly reconciliation process.

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 School Department had an external audit of their student activity funds during 2015 and is in the process of implementing procedures to strengthen internal controls surrounding these accounts.

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 within the general ledger were not utilized in 2015.

Management Response

Customized budget analysis reports have been utilized by the Town as requested by the Board of Selectmen and Finance Committee. The Town Accountant will work with the Town's general ledger and software provider to determine the best way to utilize the system for the tracking of revenues.

Development of a Year-End Closing Schedule

Prior Year Comment

In previous management letters we noted, 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.

Current Status

Due to the fact that the Town Accountant developed a monthly schedule of required reconciliations to follow, reconciliations occurred in a timely manner during 2015 and with the addition of an Assistant Town Accountant, this allowed the Town Accountant to focus on year-end reporting and as a result, closing of the general ledger, free cash submission, preparation of the 2016 Tax Rate Recapitulation Sheet and preparing for the Town's annual audit all occurred timely.

Fund Deficits

Prior 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, in 2014. These deficits could be due to posting errors or the fact that grant managers are not requesting reimbursements in a timely manner.

Recommendation

We continue to 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.

Current Status

While reviewing the 2015 final general ledger, we noted that multiple funds are reporting deficit balances at year end. Procedures should be implemented to periodically review and close out deficit funds or determine if posting errors have occurred that require correcting.

Management Response

Procedures have been implemented and distributed to all parties involved in reviewing and reconciling the various Town maintained funds.

Recording of State Revenues and Cherry Sheet Charges

Prior Year Comment

In previous management letters we noted 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.

Current Status

All State revenue and Cherry Sheet charges were recorded at their respective gross amounts during 2015.

Other Postemployment Benefit Actuarial Valuation

Prior 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.

Current Status

The Town received their required updated actuarial valuation.

Current Year Comments

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

Current Comment

The GASB has issued new pronouncements that will significantly affect the accounting and reporting requirements for Other Postemployment Benefits (OPEB). These new standards will start to phase in during 2017 and will substantially impact the Town's 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 #74, Financial Reporting for Postemployment Benefit Plans Other Than Pensions, which is required to be implemented in 2017.
- The GASB issued Statement #75, Accounting and Financial Postemployment Benefits Other Than Pensions, which is required to be implemented in 2018.

See below for a brief summary of these new standards:

- GASB #74 and #75 will substantially change the reporting for other postemployment benefit liabilities and expenses. Changes in other postemployment benefit liability will be immediately recognized as other postemployment benefit 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. Employers will report in their financial statements a net other postemployment benefit liability (asset) determined annually as of the

measurement date. *Net other postemployment benefit liability (asset)* equals the total other postemployment benefit liability for the plan net of the plan net position. The other postemployment benefit liability is the actuarial present value of projected benefits attributed to past service. The plan net position is the accumulated plan assets net of any financial statement liabilities of the plan.

The Town should expect to record significant OPEB liabilities in the future. While these GASB's do not go into effect until 2017 and 2018, we wanted to make the Town aware of the impact that these new standards will have on financial statement reporting and disclosures.