

***TOWN OF WAREHAM, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2016***



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To the Honorable Board of Selectmen  
Town of Wareham, Massachusetts

In planning and performing our audit of the financial statements of the 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, 2016, 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*

February 27, 2017

**TOWN OF WAREHAM, MASSACHUSETTS**

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## ***PRIOR YEAR COMMENTS***

## **Preparation of the Schedule of Expenditures of Federal Award Programs**

### Prior Year Comment

IN previous management letters we noted that 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 year under audit by CFDA# specific to each applicable grant year.
- Pass-Through Entity Identifying Number of each grant and grant year.

In the past, the Town has been unable to provide this information. 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. We have been assisting the Town Accountant's Office in compiling the necessary information to meet all federal and state reporting requirements.

Current Status - The Town Accountant's Office has started tracking CFDA#'s for federal School grants in excel, however 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.

Additionally, as part of Uniform Guidance implemented in 2016, the Schedule of Expenditures of Federal Awards is required to contain a Pass-Through Entity Identifying Number, which differs between grant years. As a result, the Town needs to report grant expenditures specific to the grant year in which those expenditures relate. As the ledgers do not have an account structure that identifies the grant and grant year, there is a risk that the Town would not be reporting the correct grant information on the Schedule of Expenditures of Federal Awards.

### 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 year. Additionally, we recommend that the Town considers implementing an account structure that identifies the grant not only as federal, but breaks out the expenditures specific to the applicable grant year.

### Management Response

The Town Accountant's Office will maintain an excel schedule that will be reconciled back to the general ledger that will account for all federal grants received and expended by Town Departments. We will also implement procedures to allow for the reporting by grant year, where applicable, and will add a column for the pass-through numbers now required for filing.

## **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.

Current Status - The Town has not found a stand-alone electronic module that would properly account for sick and vacation balances. The Town has recently hired a Human Resources Director who is looking into potential modules to be utilized for this function.

### 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.

### Management Response

The Town has a software program which will electronically track compensated absences. The Town recently hired a human resource director who will work with our payroll company to implement the program.

## **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 correct withholding account.

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 did not change since last fiscal year. These accounts should be periodically reviewed and adjustments made as a result of the reconciliation procedures performed.

Current Status – In 2016, we noted that a number of accounts still exist with debit balances or balances that have not changed since the last year.

### Recommendation

We continue to recommend that procedures be implemented to ensure that correct amounts are paid from the withholding accounts, that the accounts are reconciled in a timely manner, and that prior year and debit balances be reviewed and cleaned up. This process is even more important now that the Town has moved 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 is aware of the debit balances and will address these balances during 2017.

## **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.

Current Status – Various departments have adopted policies and procedures for day-to-day processing and controls, however not all departments have formal documentation regarding their policies and procedures.

### 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.

### Management Response

All of the financial departments have developed internal control policies and procedures. They have also developed, with the aid of the Division of Local Services, a financial policies and procedures manual. All of the remaining departments will be required to develop operational manuals.

## **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.

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.

Current Status – The Town Accountant's Office, the Treasurer's Office, and the Planning Office reconcile the construction deposits monthly; however the Planning Office has not yet cleaned up the outstanding balances that were identified as a result of the reconciliations.

#### Recommendation

We recommend that monthly reconciliations continue, and we continue to recommend that the Planning Office clean up the outstanding balances identified as a result of the reconciliations.

We also recommend that Planning follow up with letters to make an absolute determination of who the funds which will help determine the proper course of action related to old balances.

#### Management Response

During 2016, the Planning Office sent certified letters, return receipt, to the entities identified as the vendor on the accounts that showed a negative fund balance, in an attempt to identify the status of the vendor and the validity of the account balance. Of the vendors identified and issued letters, those that did not accept the letter were identified for further research as to status, those that did accept the letter were identified as valid accounts for further action.

### **Community and Economic Development Authority (CEDA) Loan Program**

#### Prior Year Comment

In previous management letters we noted that 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.

In the past, the detailed records of the CEDA Office were not reconciled to the Town Accountant's detail. In 2015, the Town Accountant's Office worked to reconcile the activity and outstanding CEDA loan balances to the general ledger. However, no formal periodic reconciliation procedures were established. Not having formal periodic reconciling procedures 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.

Current Status – Although in the prior year the Town Accountant's Office worked to reconcile the activity and outstanding CEDA loan balances to the general ledger, in 2016 the CEDA Office did not make the adjustments or clean up the items noted in the prior year reconciliation. Additionally, the CEDA Office had difficulties and was not able to reconcile to the general ledger at year end.

#### Recommendation

We continue to recommend that the CEDA Office reconcile detailed balances within the CEDA Office ledgers and then with the Town Accountant's general ledger on at least a quarterly basis. The CEDA Office should also work



to clean up the items noted in the prior year reconciliation procedures performed. Additionally, formal periodic reconciliation procedures should be established and implemented to ensure that all balances are reconciled periodically throughout the year.

#### Management Response

The Accounting Department has reconciled all of the CEDA loans. Monthly reconciliations are being implemented in 2017.

### **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 – Although 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, formal departmental risk assessments were not conducted during 2016.

Recommendation

We recommend that the Town conduct formal departmental risk assessments.

Management Response

The fraud risk assessment team will meet with each department annually.

**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>

The DESE recommends that the Student Activity Funds have an external audit performed every three years, and that an internal audit be performed annually.

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

Current Status – Although an external audit was conducted in 2015, the School Department did not conduct an internal review of the student activity funds in 2016.

Recommendation

We recommend that the School Department conduct and document an internal audit of the student activity funds annually in accordance with guidelines established by the DESE.

Management Response

For the current year, the School Department will hire an external auditor to carry out the audit. This will be done annually.

## **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.

Current Status – The revenue budget and monthly revenue analysis reports within the general ledger were not utilized in 2016.

### 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.

### Management Response

Customized budget analysis reports have been created and are being utilized by the Board of Selectmen and the Finance Committee. The information contained in these reports has been downloaded directly from the VADAR system. The reports are reconciled to the VADAR system.

## **Fund Deficits**

### Prior Year Comment

In previous audits, while reviewing the year-end ledger and Town's free cash submission we observed that there were significant amounts of accounts and grant funds that were in deficit balances. This occurred in both 2014 and 2015 and, as a result, reduced the Town's available free cash figure in those years. These deficits could be due to posting errors or the fact that grant managers are not requesting reimbursements in a timely manner.

Current Status – While reviewing the 2016 general ledger, we noted that multiple funds, including Town and School grant funds, are reporting deficit balances at year end. This also reduced the Town's available free cash figure in 2016.

### 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 for all department heads to periodically review their grant accounts that are in a deficit balance on at least a quarterly basis and assure that reimbursement requests, where applicable, are submitted in a timely manner.

### Management Response

The Accounting Office will review funds in a deficit and determine if any adjustments are required.

The Town Accountant annually issues year end reminder letters to all Departments. In these letters, she asks each department head to review their grants and make reimbursement requests when appropriate.

## ***INFORMATIONAL COMMENTS***

## **Future Government Accounting Standards Board (GASB) Statements for OPEB**

### Current Year 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 fiscal year 2017 and will substantially impact your financial statements and will also affect the requirements for accumulating the necessary data to meet the reporting requirements.

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

- The GASB issued Statement #74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which is required to be implemented in 2017.
- The GASB issued Statement #75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which is required to be implemented in 2018.

To briefly summarize these new standards –

- GASB #74 and #75 will substantially change the reporting for other postemployment benefit liabilities and expenses. Changes in the OPEB liability will be immediately recognized as an expense or reported as deferred outflows/inflows of resources depending on the nature of the changes. Substantial changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes will be required. Current actuarial methods may continue to be used to determine funding amounts. Employers will report in their financial statements a net OPEB liability (asset) determined annually as of the fiscal year end. The net OPEB liability (asset) equals the total OPEB liability for the OPEB plan net of the OPEB plan's fiduciary net position. The OPEB liability is the actuarial present value of projected benefits attributed to for each plan member individually, from the period when the plan member first provides service under the benefit terms through the period in which the member is assumed to exit service. The OPEB plan's fiduciary 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.

### Recommendation

We recommend that management begin to study and evaluate these changes for financial statement reporting and disclosure purposes, and to formulate plans to meet with your actuaries and financial advisers as more information becomes available. You may also want to consider how and when this information should be communicated to your constituents and other financial statement users.

## **Other Postemployment Benefit Obligation (OPEB) Actuarial Reports**

### Current Year Comment

To remain compliant with GASB Statement #45 an actuarial valuation is required at least biennially for OPEB plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more, or at least triennially for plans with total membership of fewer than 200.

Accordingly, the Town must obtain an updated actuarial valuation as of July 1, 2016 that sets the annual required contribution for the years ending June 30, 2017 and 2018.

### Recommendation

We recommend that the Town work with their actuarial firm to assure that information needed to update the report is provided in ample time for the 2017 audit.

We also recommend that discussions be had with the Town's actuary to assure that the information for 2018 is in compliance with GASB 75.

## **Documentation of Internal Controls**

### Current Year Comment

In December 2013, the U.S. Office of Management and Budget (OMB) issued *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) in an effort to (1) streamline guidance for federal awards while easing the administrative burden and (2) to strengthen oversight over the expenditure of federal funds and to reduce the risks of waste, fraud and abuse.

The Uniform Guidance supersedes and streamlines requirements from eight different federal grant circulars (including OMB Circular A-133) into one set of guidance. Local governments are required to implement the new administrative requirements and cost principles for all new federal awards and to additional funding to existing awards made after December 26, 2014 (fiscal year 2016).

In conformance with Uniform Guidance, the non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States (the Green Book) and the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The COSO internal control framework is generally accepted as a best practice within the industry including the best practices prescribed by the Government Finance Officers Association (GFOA). COSO is a joint initiative of 5 private sector organizations dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence. The original COSO framework was published in 1992 and has been revised several times for changes in operations, technology, and audit risk. The most recent updates to the COSO Internal Control - Integrated Framework were issued in 2013 and are available at [www.coso.org](http://www.coso.org).

Management is responsible for internal control and to see that the entity is doing what needs to be done to meet its objectives. Governments have limited resources and constraints on how much can be spent on designing, implementing, and conducting systems of internal control. The COSO Framework can help management consider alternative approaches and decide what action it needs to take to meet its objectives. Depending on circumstances, these approaches and decisions can contribute to efficiencies in the design, implementation, and conduct of internal control. With the COSO Framework, management can more successfully diagnose issues and assert effectiveness regarding their internal controls and, for external financial reporting, help avoid material weaknesses or significant deficiencies.

The COSO internal control framework incorporates 5 major components of internal control, which are supported by 17 principles of internal control as follows:

1. CONTROL ENVIRONMENT
  - 1) Demonstrates commitment to integrity and ethical values
  - 2) Exercises oversight responsibility
  - 3) Establishes structure, authority, and responsibility
  - 4) Demonstrates commitment to competence
  - 5) Enforces accountability
2. RISK ASSESSMENT
  - 6) Specifies suitable objectives
  - 7) Identifies and analyzes risk
  - 8) Assesses fraud risk
  - 9) Identifies and analyzes significant change
3. CONTROL ACTIVITIES
  - 10) Selects and develops control activities
  - 11) Selects and develops general controls over technology
  - 12) Deploys through policies and procedures
4. INFORMATION & COMMUNICATION
  - 13) Uses relevant information
  - 14) Communicates internally
  - 15) Communicates externally
5. MONITORING
  - 16) Conducts ongoing and/or separate evaluations
  - 17) Evaluates and communicates deficiencies

Management should evaluate and assess the government's internal control system to determine whether: each of the five essential elements of a comprehensive framework of internal control is present throughout the organization; whether each element addresses all of the associated principles; and whether all five elements effectively function together.

#### Recommendation

We recommend management follow the best practice for establishing and documenting their internal control system using the COSO Internal Control Framework.