

TOWN OF WAREHAM, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2018



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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, 2018, 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.

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 4, 2019

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PRIOR YEAR COMMENTS

Chapter 90 (Highway) Deficit

Prior Year Comment

In 2017, the Town's Chapter 90 (Highway) fund had a deficit at year end totaling approximately \$232,000. Of that amount, approximately \$176,000 was either received subsequent to year end, or had been requested and not yet been received.

The remaining amount of the deficit, totaling \$56,000, related to older projects, and those funds had not yet been reimbursed. Expenditures could have been charged to the Chapter 90 fund in error in previous years.

Therefore, it was assumed that this deficit was a permanent deficit that needed to be funded through other sources. The Town could have decided to investigate further or appropriate funds to cover the deficit. Additionally, this deficit balance had a negative impact on the Town's certified free cash, leaving fewer funds available for appropriation and use for other Town purposes.

Current Status – Resolved. The Town investigated the prior year deficit and was able to request all funds from the State. Additionally, all current year expenditures were properly requested for reimbursement.

Student Activity Expenditure Documentation

Prior Year Comment

The prior year-end cash reconciliation included a reconciling item of approximately \$10,000, which related to checks from the student activity accounts that have cleared the bank, but have not been posted to the general ledger. The reason for this reconciling item was a timing issue between when the checks were written and cashed from the student activity accounts and when that information was turned over to the accounting office for proper posting to the general ledger. The delay in providing the expenditure documentation to the Accounting Office increases the risk that there are inappropriate student activity expenditures being processed and increases the risk that the accounting ledgers do not correctly reflect the proper cash balances at the end of the period.

Current Status –The Town and School have not yet cleared the reconciling items related to the Student Activity accounts that were outstanding in the previous year.

Recommendation

We continue to recommend that the School Department evaluate the internal controls over student activity funds, and ensure that supporting documentation be provided to the accounting department in a timelier manner to ensure proper financial reporting on the Town's general ledger.

Delay in Posting Board of Selectmen Meeting Minutes

Prior Year Comment

As of the end of our audit field work in the previous fiscal year, the Town did not have meeting minutes of the Board of Selectman available for the two months prior to the report date. We were informed that the meeting minutes for all of the meetings held within these months were not yet compiled and that the notes from those meeting were not available to concerned parties. Meeting minutes are an important part of the Town's records and should be prepared in a timely manner and kept in a safe place where they can be readily available and retained permanently.

Current Status – Resolved. Board of Selectmen meeting minutes were posted to the Town's website in a timelier manner in the current year.

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.

In 2016, the Town Accountant's Office had started tracking CFDA#'s for federal School grants in excel, however this information was not included as part of the fund names or an account number segment in the general ledger so a report could be run of all federal expenditures by grant year. In 2017, the School Department had implemented a new accounting structure that identified the grant year to which all expenditures relate regardless of which fiscal year the expenditures were recorded. This new accounting structure was anticipated to be fully functional in 2018.

Current Status – Resolved. The School Department's accounting ledgers are now set up to distinguish the grant year in which the federal expenditure relate.

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 yet implemented a stand-alone electronic module that would properly account for sick and vacation balances. The Town has 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.

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.

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 continue to 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 continue to recommend that monthly reconciliations continue, and we recommend that the Planning Office clean up the outstanding balances identified because of the reconciliations.

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 – *Resolved*. Formal departmental risk assessments were conducted during 2018 and a plan has been developed to continue on a go forward basis.

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 2018.

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.

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, 2014, 2015 2016, and 2017, 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 2018 free cash submission and year-end ledgers, we noted that multiple funds are reporting deficit balances at year end, which reduced the Town's available free cash figure in 2018.

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.

Documentation of Internal Controls

Prior 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 were 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).

Management is responsible for internal controls 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 must incorporate the 5 major components of internal control, while addressing the 17 principles of internal control that support the COSO framework. Refer to www.coso.org for articles describing the 5 components and their 17 principles in detail.

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.

Current Status

The Town and School have not documented internal controls surrounding federal awards.

Recommendation

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

INFORMATIONAL COMMENTS

Framework for Assessing and Improving Cybersecurity

Current Year Comment

Throughout an organization's normal course of business comes the need to collect, transmit, and store extensive amounts of personal and financial information, both in paper and electronic form, relating to residents, vendors and employees. The use of technology has become a driver in helping organizations stay current and succeed. However, the sharing and compilation of this information lends itself to increasing the organization's vulnerability to either a cyber computer attack, ransomware attack, or a security breach, all are considered cybersecurity attacks.

Management must be aware of the risks associated with the collection of this information and be diligent in implementing the proper policies and procedures to help to expose these risks. While impossible for an organization to eliminate all risks associated with a cybersecurity attack, an organization can take a variety of steps to mitigate its exposure, satisfy its governance responsibilities and help to minimize the impact of any attack that may occur.

Because management is ultimately responsible for developing, implementing and operating an organization's cybersecurity risk management program, management is also responsible for developing, and presenting to the organization an overview of the entity's cybersecurity risk management program.

The first step in understanding an organization's risks and working to develop and implement an effective cybersecurity plan, is to conduct a risk assessment and understand where its greatest exposure and vulnerabilities lie. This can be completed internally if the organization has an experienced information technology team, or there are many organizations that employ experienced professionals in the information technology arena to assist in the risk assessment and implementation if desired.

Once a risk assessment is completed, the next step is to develop and implement a cybersecurity risk program which needs to be continually reviewed and updated as technology changes. This response program should be tested to determine if the proper policies and procedures have been implemented to minimize the potential costs of a cyber-attack.

The obvious benefit to conducting a risk assessment is having the knowledge and an objective identification of the organization's areas where exposure to risks is more prevalent and allows for the development of a roadmap to address the remediation of these risks.

Some of the main areas of review that should be incorporated into the risk assessment are as follows:

- Electronic Records, Paper Records (Human Resource Records, Bank Statements, Payroll Records), Resident Data, Employee Data, Physical Security of hardware and software, Any Third Party or Vendor exposure, Password Security, E-Mail Security (Understanding the risks of malware and ransomware), Mobile phones and Portable Storage Devices, System Backup Procedures, Virus Protection Software, Data Encryption, Document Retention and Destruction Policies, Use of Unauthorized Software, Ongoing Employee Training.

Risk management is the ongoing process of identifying, assessing the risk, and developing a plan to address the risks. In order to manage their risk, organizations should understand what the likelihood is that an event will occur and assess the resulting impact of the event. This will assist the organization in developing their own acceptable level of risk tolerance and help to prioritize the areas in which internal controls should be strengthened.

Recommendation

We recommend that management take a pro-active approach and assess their risk exposure to a cyber-attack. An internal team with the proper information technology experience can be used or a third party vendor that specializes in this type of assessment can be used.

Once a review is completed, we recommend that policies and procedures be developed to mitigate each identified risk to an acceptable level that fits with the organization's determined risk tolerance.

We also recommend that the community look into obtaining Cyber Liability Insurance which will help to mitigate the costs associated with a breach in information technology security.

Finally, we want to make management aware that technology is constantly changing and that this is not a one-time static process, this will require additional risk assessments and the updating of policies and procedures with the changing technological landscape.