TOWN OF WAREHAM, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2019

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, 2019, 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

February 24, 2020

TOWN OF WAREHAM, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2019

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CURRENT YEAR COMMENTS

Audit of Student Activity Accounts

Current Year Comment

Chapter 70, Section 47 of Massachusetts General Law (MGL), as amended, states that there should be an annual audit of the student activity funds and that such audit should be conducted in accordance with procedures as agreed upon between the School Committee and auditor based on guidelines issued by the Department of Elementary and Secondary Education (DESE). DESE has issued agreed upon procedures and audit guidelines for Student Activity Funds to be followed when conducting student activity audits.

An annual audit of the student activity funds may consist of an internal audit conducted by the school business administrator, if so approved by the School Committee. However, at least one time every three years, it is recommended that the audit be performed by an independent audit firm.

The Town has not had internal or independent audits of its student activity funds in recent years.

Recommendation

We recommend that the Town implement a process for complying with the MGL by conducting annual audits on all student activity funds and that the audit results be formally reported to the School Committee.

Abate Old Receivables

Current Year Comment

The Town should consider reviewing motor vehicle and boat excise receivables to determine the likelihood of collection. As of June 30, 2019, the Town had approximately $297,000 and $123,000 of motor vehicle excise and boat excise receivables, respectively, that are greater than 5 years old. If any of the receivables are deemed uncollectible the Town should take the appropriate action to abate the uncollectible receivables. This will ensure that the Town's receivables are fairly stated and will help to make the reconciliation process more efficient.

Recommendation

Management should implement a process to periodically review and determine what accounts are deemed to be uncollectible. Accounts deemed uncollectible should be brought to the Board of Assessor's for approval to write off the impacted accounts. Upon approval of the abatement request from the Board of Assessors, the Town should make the appropriate entries to formally write off these receivables.

PRIOR YEAR COMMENTS

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 previous year' reconciling items related to the Student Activity accounts. Furthermore, there is still a delay in providing expenditure documentation to the Accounting Office when requesting replenishment.

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 and timely replenishments for the School.

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 begun the process of implementing a stand-alone payroll module that would properly account for sick and vacation balances. The Town has set the benefit stipulations for a few of the Town's union contracts in the payroll system and is working with the system to ensure that the benefits are calculating properly. Manual spreadsheets are also maintained until the system is fully implemented. The Town is working to implement the use of the new system with all Town Departments.

Recommendation

We recommend that the Town continue to bring on more Department's into the new module and assure that the reports are generating properly to mitigate any manual corrections necessary when running and reviewing reports.

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 – The Town has acknowledged that formal documentation is necessary and must be reviewed and updated at least once a year. The Town is working to assure that all Town Departments have proper internal control policy and procedure manuals for all day to day functions of the various Departments.

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 – Monthly reconciliations continue to occur. However, the Planning Office has not worked to clean up the outstanding balances that were identified as a result of the reconciliations.

Recommendation

We recommend that monthly reconciliations continue, and we recommend that the Planning Office clean up the outstanding balances identified because of the reconciliations in a timely manner.

Budgeted Estimated Revenues and Other Financing Sources

<u>Prior Year Comment</u>

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.

<u>Current Status</u> – At this time, the Town has determined that utilizing external spreadsheets that have been reconciled to the general ledger is a more efficient way of managing their revenue budget versus actuals and make management decisions.

Fund Deficits

<u>Prior Year Comment</u>

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, 2017, and 2018 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.

<u>Current Status</u> – While reviewing the 2019 free cash submission and year-end ledgers, we noted that multiple funds are reporting old outstanding deficit balances at year end, which reduced the Town's available free cash figure in 2019.

<u>Recommendation</u>

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

<u>Prior Year Comment</u>

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.

<u>Current Status</u>

Internal controls surrounding federal awards have been documented and the final policy is expected to be approved by the end of the fiscal year.

Framework for Assessing and Improving Cybersecurity

<u>Prior Year Comment</u>

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.

Current Status – The Town has implemented various policies and procedures to assess their risk exposure to a cyber-attack and has taken reasonable steps to mitigate any potential risks. Furthermore, the Town has obtained Cyber Liability Insurance to help mitigate the costs associated with a breach in information technology security.