

***TOWN OF CARVER, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2016***



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To the Honorable Board of Selectmen  
Town of Carver, 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 Carver, 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 of Carver, Massachusetts' internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

However, during our audit we became aware of several matters that represent opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning 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 Carver, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties.

January 26, 2017

**TOWN OF CARVER, MASSACHUSETTS**

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## ***Prior Year Comments***

## **Year End Closing Process**

### Prior Year Comment

The Town is unable to perform the year-end close in a timely manner and is impacted because important procedures are not performed on time while others are performed too early in the process. As a result, there can be delays in producing closing entries, trial balances, schedules, reconciliations, account analysis, and financial reports needed by management and the Department of Revenue.

We believe that the year-end closing could proceed more quickly by developing a closing schedule that indicates who will perform each procedure and when completion of each procedure is due and accomplished. The timing of specific procedures could be coordinated with the timing of management's need for the information with the due dates monitored to determine that they are being met.

Current Status - Year-end closing procedures improved significantly in 2016. This is due, in part, to the reconfiguration of the financial departments of the Town. This comment is considered resolved.

## **Fraud Risk Assessment**

### Prior Year Comment

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 - This comment was not addressed in 2016.

Continuing Recommendation - We continue to recommend that the Town formalize a fraud risk assessment.

## **Accounting for Betterments**

### Prior Year Comment

Betterment accounting is currently a coordinated effort between the Assessor's Office and the Treasurer's Office with no real clear understanding as to who has direct responsibility for the maintenance and accounting for the receivable by real estate parcel including amounts that are suspended or abated. Additionally, all the information is maintained on spreadsheets with no integration to the accounting system.

Current Status - The Town Treasurer and Assessor are now reconciling file imports into the accounting software.

## **Accounting for Septic Loans**

### Prior Year Comment

The Town administers septic loans to qualifying residents. Collections are done by the planning department, but they are not very strict. At the time the loan started, a payment schedule was created where payments were to be made quarterly. Based on information provided to us payments appear to be over one year in arrears.

Current Status – There is no change with regard to this in 2016.

Continuing Recommendation - We continue to recommend that better controls are put in place to assure that all amounts due the Town are paid in a timely manner.

## **Budgeting Consolidated Town Services**

### Prior Year Comment

As part of our audit of the general fund budget we noted that certain "consolidate services", primarily health insurance, were split between the School Department budget and the rest of the Town. This is unusual and is not something that we see in the budgets of other cities and towns.

Normally, expenditures/services that apply to all town employees, regardless of the department they work for, are reported as a single line item in the Town budget, with no specification of a department or other cost center. This approach allows for a budget line item to be individually reported and monitored, and gives management the ability to modify the budget annually based on actual performance.

Current Status - The School Department health insurance continued to be a separate line item within the 2016 fiscal year budget.

Continuing Recommendation - We continue to recommend that the Town consider consolidating the budget for health insurance into one line item in the Town budget. We also continue to recommend that the Town evaluate the ability to do the same for other "like-kind" expenditures.

## **Police Details and Firearms Permits**

### Prior Year Comment

The Police department is responsible for accounting for and maintaining records related to details worked and firearms permit revenues received. However, the information related to these activities was not being provided to the accounting office and there were no reconciliations performed to account for the amounts reported on the general ledger.

Current Status – This account is now being reconciled on a regular basis. This comment is considered resolved.

## **Reconciliation of Treasurer's Cash Book Balances**

### Prior Year Comment

It was noted that Treasurer's cash book balance to bank balance reconciliations were not performed for all bank accounts during the year, particularly the vendor and payroll account. The Town had to hire an outside consultant to complete these reconciliations in order to close the Towns' books.

Current Status – This bank reconciliations are now being conducted on a regular basis. This comment is considered resolved.

## **Budget Development and Monitoring**

### Prior Year Comment

During last year's audit we involved ourselves in discussions regarding budget development and monitoring with both the Town Accountant (Accountant) and the Business Manager.

The Town's general ledger records a budget for all departments at the appropriate detail level (i.e. salaries, contractual services, etc.). Ultimately, it is the responsibility of the Accountant to assure that no appropriation, with the exception of legal deficits such as snow and ice, is overspent. As such, if a line-item in the budget is going to be overspent, a transfer from another line item would be necessary to cover the shortfall. This is the process followed for all Town departments except the School.

The Business Manager indicated that the budget of the school is bottom line focused and that transfers between line-items does not occur and need not occur. This policy creates issues at multiple levels.

The first relates to the maintenance and monitoring of the general ledger. As noted above, the Accountant is responsible for assuring that all expenditures do not exceed its appropriation. Without budget transfers it is impossible for the Accountant to monitor the school budget. There is no way to tell if an over expenditure in one line item will be covered by a surplus in another.

The second affects the school. Managing the school budget is no small task and assuring that all expenditures have an adequate appropriation available without making budget transfers makes the task more difficult. This is because there is no way that a principle/department head can tell if an available amount in a line-item they control is valid due to the fact that it may be earmarked to cover a deficit in another line item they do not control.

The DOR has weighed in on these matters in the form of opinion letters that, among other things, address:

- Notifying the Accountant of transfers
- Having the School Committee vote to allocate line-item amounts at a level of detail considered appropriate for budgetary control and,
- Having the school committee periodically review its budget throughout the fiscal year and reallocate from budget line-items with surpluses to accounts that are in danger of being overspent.

Please note that the DOR's recommendations have been implemented in the majority of school districts who are our clients.

Current Status – Several changes have occurred subsequent to 2016 that positively impact this comment that are due to personnel changes and changes made in both finance offices. There is now a better coordination of information between the Accountant and Business Manager. While this comment is not deemed to be resolved at the end of fiscal 2016, it is anticipated to be resolved in fiscal 2017.

## **Water User Charges Billing**

### Comment

The North Carver Water District bills users for water usage and the meters are supposed read on a monthly basis with bills being mailed out on a quarterly basis. During our analysis of unbilled water usage charges, it came to the Town's attention that the July and October 2015 billing were over-looked and the billings were not sent out.

Current Status – We noted that this did not occur in fiscal 2016. This comment is deemed resolved.

## ***Current Year Comments***

## **Procurement Procedures, Documentation and Authorization**

### Comment

At the end of fiscal 2015, the School Department entered into a contract to purchase \$48,119 of computers and computer related equipment. It is our understanding that this was not discovered by the Town until FY2016 when the first payment request to a lease company was made by the School.

This created several issues related to Town operations:

1. Leases are a contractual obligation and are a form of debt. This lease should have been known by both the School Committee and Town representatives. Ultimately, because of this, the lease was cancelled.
2. The School did not have sufficient funds to pay for the computers in its FY2015 budget, which is most likely why there was an attempt to enter into a lease. Because of this, the School needed to shift the expenditure to FY2016.
3. However, it turns out that the FY2016 School budget also could not support the payment. Ultimately, Gift Trust Funds were used to pay for the purchase.
4. The overall purchase price exceeded the Invitation for Bid and Request for Proposal threshold established by the Town. However, no procurement process was initiated.

It should be noted that there is a new Superintendent and Business Manager at the School now and that our additional testing did not reveal any other instances of improper procurement. However, because this event occurred within the scope of our audit we considered it relevant enough to note in this management letter.

### Recommendation

That all procurements follow proper protocol and adhere to Town policies.

## **Documentation Of Internal Controls For Federal Grants**

### 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.

## ***Informational Comment***

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

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

To briefly summarize these new standards –

- GASB #74 and #75 will substantially change the reporting for other postemployment 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.

As a result of the new standards, 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.

### 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.