

***TOWN OF CARVER, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2013***



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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, 2013, 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.

February 10, 2014

**TOWN OF CARVER, MASSACHUSETTS**

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**JUNE 30, 2013**

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## ***Prior Year Comments***

## **Design of Internal Control Over Significant Bank Accounts**

### Prior Year Comment

In our prior year management letter we noted several areas in which the internal control over cash could be improved. While several specific examples were given related to internal control deficiencies, the primary reason for the items noted was the consistent inability of the Treasurer's Office to reconcile cash in a timely manner and, consequently, the need to rely heavily on the Town Accountant's involvement in order to keep the general ledger current.

In addition to our observations, we noted that several of the matters we discussed were also communicated to the Town by prior auditors and the Department of Revenue - Division of Local Services. These reports also concluded that there exists a need for the Treasurer's Office to post receipts, report revenue/expenditure activity, and reconcile cash in a timely manner.

### Current Status

During the fiscal year 2013 and through the date of our field work there have been several changes made to the Treasurer's Office operations. During this time the following improvements have been made:

- Cash receipts are now being posted in a timely manner.
- Electronic Fund Transfers (EFT's) are now posted on a daily basis.
- The Bank of America account has been reconciled containing only current reconciling items.
- The payroll account is now being funded equal to the amount of the payroll warrant.
- Payments to various taxing authorities are being properly approved.
- The Town did not pay any taxes, of which they were exempt from paying.

Due to these improvements we consider this comment to be resolved.

## **Review User Profiles To Limit Unnecessary Access To Sensitive Data**

### Prior Year Comment

In general, it is good practice to periodically review and assess user profiles to limit access to sensitive data such as, cash receipts, accounts payable, accounts receivable, human resource data, vendor and payroll master files and general ledger maintenance. By limiting access to this data, the Town can reduce fraud risk and protect the integrity of the data maintained in the system.

We noted that the Town Accountant had full read/write privileges to the Treasurer's component of the Zobrio System. While this was done to expedite the recording of cash receipts to the general ledger, internal control is compromised when one individual has the ability to initiate, approve and record a transaction, and reconcile balances.

We recommended that the Town conduct a review and assessment of user profiles to identify and limit unnecessary access to the data maintained in the system and that the Town Accountant be given only read access to the Treasurer's component of Zobrio.

### Current Status

During fiscal 2013, a review was done and now the Town Accountant only has read privileges to the Treasurer's component of the Zobrio System. Due to these improvements we consider this comment to be resolved.

## **Year End Closing Process**

### Prior Year Comment

We are aware that the Town is unable to perform the year-end close in a timely manner for the past several years. While acknowledging that the matters discussed in a previous comment have contributed to this, the closing process can also be 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

A new Town Accountant was hired at the end of fiscal year 2013. She will address this comment in 2014.

### Continuing Recommendation

We continue to recommend that the year-end closing be done more timely and anticipate this comment to be resolved in fiscal 2014.

## **Formalize A Cash And Investment Policy**

### Prior Year Comment

As part of our audit we noted that the Town invests all funds according to State statute while maximizing that such investments are protected to the fullest extent through FDIC Insurance, Third Party Collateralized Agreements, Depositors Insurance and the MMDT. This is good business practice and we concur with this investment methodology.

However, accounting standards (GASB 40) have highlighted the need for governmental entities to formally adopt cash and investment policies that take into account custodial, credit and interest rate risk. Such policies establish guidelines for matters such as 1) the types of banks the Town should have deposits with; 2) the maximum period that an investment can be held and; 3) the highest concentration the Town can have in any one investment type or issuer.

We recommended that the Town formalize its cash and investment policy and that this policy be adopted by the Board of Selectmen.

### Current Status

A new Town Treasurer was hired at the end of fiscal year 2013. She will address this comment in 2014.

### Continuing Recommendation

We continue to recommend that the Town formalize its cash and investment policy and that this policy be adopted by the Board of Selectmen and anticipate this comment to be resolved in fiscal 2014.

## **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

A new Town Accountant was hired at the end of fiscal year 2013. She will address this comment in 2014.

## ***Current Year Comments***

## **Police Details**

### Comment

Police department is responsible for accounting for and maintaining records related to details worked. However, the information related to this activity is not provided to the accounting office and there are currently no reconciliations performed to account for the amount reported on the general ledger. Without reconciliations, the possibility of errors and/or omissions occurring and not being detected in a timely manner increases. Furthermore, the balance in the police details account has a debit balance that nearly doubled from \$33,000 in prior year to \$61,000 in the current year. This account should maintain a zero balance with reconciling items due to timing.

### Recommendation

We recommend that reconciliations between the Police department and the Town Accountant be done on a monthly basis. Timely reconciliations will enable the Town to detect errors and discrepancies in a more effective and efficient manner, thereby strengthening the overall internal controls of the Town.

## **Capital Leases versus Long-Term Debt**

### Comment

This comment is intended to provide information related to the financing of the Town's capital expenditures.

Each year the Town enters into new capital leases for various equipment procurements and, at year end, had four active leases on the books. Three of these leases have interest rates in excess of 4% (ranging from 4.36% to 4.12%) while one has an interest rate of 3.64%.

Recent bond and note issuances made by various communities have resulted in lower interest rates than those noted above.

### Recommendation

We recommend that the Town review the current process for using capital leases and consider using bonds or notes to fund capital expenditures; as the overall borrowing costs may be considerably lower.

## **Payroll Transfers**

### Comment

Payroll warrants are processed and funded on a weekly basis. Transfers for the funding of these warrants is made from whichever account has a high enough balance to cover the warrant at the time. The use of a different account each week makes the reconciliations of each bank account more difficult and susceptible to errors or omissions. The same bank account should be used each week to transfer funds into the payroll account for the warrant.

### Recommendation

We recommend that the Town implement procedures to use only one bank account to fund the payroll warrants. If the account balance falls below the warrant amounts, and transfers should be made into that account prior to the transfer into the payroll account.

## **I-9 Documentation**

### Comment

Form I-9 is used to verify the identity and employment authorization of individuals hired for employment in the United States. In addition to an employee attesting to their employment authorization they must also provide documentation to verify their identity. An employer must have a completed Form I-9 on file for every qualified person on their payroll and these forms must be maintained on file for three years after the date of hire or one year after employment is terminated, whichever is later. The Form I-9 is required for all employees hired after November 6, 1986.

The Town was unable to produce Form I-9's for 23% of the 30 employee files we tested.

### Recommendation

We recommend that the Town review their current process for obtaining and maintaining Form I-9 and work to ensure that they have the required Form I-9 for all employees hired after November 6, 1986.

## ***Informational Comments***

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

### Comment

The GASB has issued new pronouncements that will significantly affect the accounting and reporting requirements for Pensions and Other Postemployment Benefits (OPEB). These new standards will start to phase in during fiscal year 2014 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 #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans*, an amendment of GASB Statement No. 25, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which is required to be implemented simultaneously with Statement #68.

The GASB is expected to issue additional standards following #67 & #68 for Pensions, which will similarly affect accounting and financial reporting for OPEB Plans. The GASB is encouraging earlier application of these standards. To briefly summarize these new standards –

- GASB #65 will require reporting each of the financial position elements in a separate section in the statements of financial position. These elements are Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position; where Assets + Deferred Outflows – Liabilities – Deferred Inflows = Net Position. These new requirements will affect certain aspects of the financial statements currently and they will pave the way for the new reporting requirements of the new Pension and OPEB standards.
- GASB #67, #68 and #71 will substantially change the reporting for pension liabilities and expenses. Changes in pension liability will be immediately recognized as pension 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 pension liability (asset) determined annually as of the fiscal year end. Net pension liability (asset) equals the total pension liability for the plan net of the plan net position. Pension liability is the actuarial present value of projected benefits attributed to past service, and plan net position is the accumulated plan assets net of any financial statement liabilities of the plan.

The Town should expect to record significant pension and 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 want to consider how and when this information should be communicated to your constituents and other financial statement users.

## **Reserve Fund For Future Payment Of Compensated Absences**

### Current Comment

Effective July 3, 2012, Chapter 40, Section 13D, provides a city, town, or school district with the ability to establish a reserve fund for the future payment of accrued liabilities for compensated absences due any employee or full-time officer upon termination of employment.

At June 30, 2013, the Town's estimate of this liability totaled \$858,000.

### Recommendation

We recommend the Town consider accepting the provisions of this section with the goal of incrementally funding this liability.

## **Other Postemployment Benefits - Actuarial Valuation**

### Prior Year Comment

The implementation of Governmental Accounting Standards Board (the GASB) Statement #45 requires disclosure and recognition of other post-employment benefits liabilities (OPEB) in the Town's financial statements. For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with total membership of 200 or more, or at least triennially for plans with a total membership of fewer than 200.

Net OPEB obligations associated with enterprise funds, from which contributions are made, should be displayed as liabilities in the financial statements of those funds. An employer's net OPEB obligation is defined as the cumulative difference between the annual OPEB cost and the employer's contributions to the plan, including the OPEB liability at transition, if any.

For the Town to remain compliant with GASB Statement #45 after fiscal 2013, the Town must obtain an updated actuarial valuation that dated July 1, 2013 and can be used for the fiscal 2014 and 2015 audits.