

***TOWN OF CARVER, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2014***



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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, 2014, 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 6, 2015

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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 continue to be performed in a manner that negatively impacts the year-end close.

Continuing Recommendation - We continue to recommend that the year-end closing be done more timely and anticipate this comment to be resolved in 2015.

## **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 - The Treasurer has created a draft investment policy, which has been submitted to the Board of Selectmen for adoption.

Continuing Recommendation - We recommend that the Board of Selectmen adopt the cash and investment policy.

## 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 2014.

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

## **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.

Current Status - At June 30, 2014 the balance in the police details account is a debit balance of \$54,000 and there are no reconciliations being done on the account.

Continuing Recommendation - We continue to recommend that reconciliations between the Police department and the Town Accountant be done on a monthly basis.

## **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.

Current Status - The Town continues to use capital leases as a way to finance capital projects. This is expected to be resolved in 2015, as funds will be used from the capital and debt stabilization funds.

## **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.

Current Status - Payroll warrants were funded from the same bank account throughout the year.

## ***Current Year Comments***



## **Limit Use of Manual Checks**

### Comment

The use of manual checks increases the risk of errors and irregularities because the payments do not go through the normal pre-approval process that other payments are subjected to. Manual checks are normally put on a warrant for approval after the payment is made. In very limited circumstances, it may be necessary to make a payment using a manual check, but the use of manual checks should be minimized as much as possible.

We noted the consistent use of manual checks for payroll payments. When we inquired about the payments, we were told that the manual checks were primarily used correct errors in withholdings and to pay school employees who did not submit timesheets on time.

### Recommendation

We recommend that the Town develop policies and procedures for the use of manual checks. It is also recommended that the use of such checks is limited to instances of absolute necessity. Generally, payments to employees should be made through the Town's warrant process where the payments are preapproved at the proper levels of Town government.

We also recommend the Town address the issue related to timely submission of timesheets. Consideration should be given to making payments in matters like this in the following payroll.

## **Audit of Student Activity Funds**

### Comment

The Massachusetts Association of School Business Officials (MASBO) published a student activity accounts manual, in May of 2007, to assist school districts with the operation and management of student activity accounts under the provisions of Massachusetts General Law (MGL), Chapter 71, Section 47. To comply with the MGL, the MASBO recommends that annual audits of the student activity funds be performed. The audit may be an internal audit conducted by an independent District department, if so approved by the School Committee. However, at least one time every three years, the audit should be performed by an independent audit firm. The District currently has policies and procedures in place to comply with the annual internal audit; however an external audit has not been completed in the last three years.

### Recommendation

We recommend that the Town implement procedures to comply with this MASBO recommendation concerning external audits.

## Library Cash Procedures

### Comment

The Carver Public Library operates as a department of the Town of Carver. The Library collects approximately \$12,000 in fees and fines each year. We noted the following areas where internal controls should be improved related to the Library's cash handling procedures.

- The Library has one cash drawer at the circulation desk where cash is collected for fees, fines and faxes. All 11 library employees have access to it, and there is no lock on it. Cash is stored in the unlocked drawer all day and overnight until the next morning, when the Director empties it. The Director will take out the cash leaving a residual balance of less than \$50 and store it in an envelope in her locked office. On a weekly basis, cash is entered into the ledger software and turned over to the Treasurer's Office for deposit.
- The "cash drawer" always has a beginning balance of less than \$50 to make change; however, it is not a set starting balance every day. There is also an amount of cash in the Library safe, if there is not enough cash in the drawer to make change. By not knowing the beginning balance in the drawer, it is difficult to know how much was collected for that day, and therefore, difficult to reconcile.
- Collected funds are recorded in a system on the library network which tracks a patron's balance. This system, however, does not keep track of the daily collections. This makes it difficult to know much is supposed to be in the drawer at the end of the day.
- There are no reports generated that indicate the amount collected for fees, lost books or fines. Therefore, there are no reconciliations performed to verify that the amount collected from patrons is actually the amount collected and deposited with the Treasurer.
- The Library collects fees for a print release station. Patrons use a coin and dollar collection machine, which is emptied on a quarterly basis when it is full. The machine does not track the number of pages printed and therefore, there is no system to reconcile the funds turned over to the pages printed.
- The Library collects fees for sending faxes. The library staff will collect the fee and go make the fax. There is currently no system to track the amount of pages faxed to the amount of funds collected.
- The Library collects fees for meeting room rentals. There is currently no system to reconcile the funds collected for the meeting rooms.

The lack of reconciling procedures increases the risk that errors or irregularities in the collection of fees would go undetected and uncorrected.

### Recommendation:

In order to improve internal controls over cash, we recommend that the Library develop, document and implement more structured cash handling policies and procedures and that the department cross-train employees on performing these functions. As part of these procedures, we recommend that the cash drawers be locked, cash be moved to the safe at night, and that records of cash collections be documented, as soon as the transaction occurs. The most efficient and secure way to do this is through a cash register system where cash can be recorded and secured, access can be limited, and customer receipts can be generated. This will allow reconciliations to be performed at the end of each day.

## **Accounting for Betterments**

### 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.

### Recommendation

We recommend that betterment accounting be reviewed with the goal of establishing clear responsibilities between all parties involved.

## **Accounting for Septic Loans**

### 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 of the loan started, a payment schedule was created where payments were to be made quarterly. No payments were made during 2013 and only one payment was made during 21014. At June 30, 2014, the balance in the receivable was \$1,605, which per the payment schedule was supposed to be the balance at 5/15/12.

### Recommendation

There should be better controls in place to assure sure that all amounts due the Town are paid in a timely manner

## **Accounting for Payroll Withholdings**

### Comment

It came to our attention that the accounting and process for handling payroll withholding changed in July 2014. Previously, the Treasurer was responsible for determining the amount of withholdings for both all the town and school employees. Now, the process is bifurcated, with a school clerk calculating the School withholdings and the treasurer's Office calculating the remainder of the Town's withholdings; with the two amounts combined them into one warrant.

### Recommendation

We suggest that the Town revert back to the original process of having all withholdings calculated and processed by the Treasurer's Office. The current process requires additional reconciliations that would be eliminated if the entire process was consolidated.

## **Budgeting Consolidated Town Services**

### 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.

### Recommendation

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

## ***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 2015 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 #67, *Financial Reporting for Pension Plans*, an amendment of GASB Statement No. 25, which is required to be implemented in fiscal year 2015.
- 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 has also issued 2 exposure drafts 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 #67 and #68 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.
- Similar standards will be issued related to unfunded OPEB liabilities.

As a result of the new standards, 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 also 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, 2014, the Town's estimate of this liability totaled approximately \$772,000.

### Recommendation

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