

TOWN OF CARVER, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2015



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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, 2015, 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 11, 2016

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 continue to be performed in a manner that negatively impacts the year-end close. It was noted that pertinent information from departments not being sent to the accounting office within a reasonable time after year-end.

Continuing Recommendation

We continue to recommend that the year-end closing be done more timely and that policies and procedures are put in place detailing deadlines for when information from other departments are required to be turned over to the accounting department.

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 2015.

Continuing Recommendation

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

Limit Use of Manual Checks

Prior Year 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.

Current Status

During the year, the treasurer has created a policy that does not allow the issuance of manual payroll checks for missed benefits on a timecard or timesheet. Since the implementation of this policy, the amount manual checks' issued has decreased to a reasonable amount. We consider this comment to be resolved.

Audit of Student Activity Funds

Prior Year 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.

Current Status

It is noted that subsequent to year end the district took steps to hire an independent audit firm to conduct the student activity funds audit. The audit are currently being completed, therefore we deem the comment to be resolved.

Library Cash Procedures

Prior Year 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.

Current Status

While all library employees still have access to the cash drawer, cash held overnight is now secured in a locked safe and is reconciled at the beginning of each day

Each morning an email is received from the SAILS Library Network that provides a Bill Report that details the receipts taken in through the cash drawer from the previous day. The report is reconciled to the cash on hand. After the cash is reconciled it is turned over to the Treasurer's office. The "Bill Report" also tracks all amounts received for fees, lost books, and fines.

The cash drawer always begins the day with a \$50 balance (2 - \$10's, 4 - \$5's, and 10-\$1's).

The fax machine now has a sheet next to it where the librarians use a tally system to track how many are sent each day. This report is reconciled to the cash received.

Fees collected for meeting room rentals is required to be in check form which are turned over to the Treasurer's office each week.

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

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 and were able to reconcile the betterment accounts at year end. However, it was noted that throughout the year, reconciliations were not performed timely.

Continuing Recommendation

We continue to recommend that betterment accounting be reviewed with the goal of establishing clear responsibilities between all parties involved and to include specific deadlines for when procedures are to be completed.

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. No payments were made during 2013 and only one payment was made during 2014. 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.

Current Status

At June 30, 2015, the balance in the receivable was \$1,023, which per the payment schedule was supposed to be the balance at 2/15/14. Six payments were made during the year to pay down the loan; however the loan balance remains more than a year in arrears.

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.

Accounting for Payroll Withholdings

Prior Year 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.

Current Status

The Town has reverted back to the original process of having all withholdings calculated and processed by the Treasurer's Office. We deem this comment to be resolved as of June 30, 2015.

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 2015 and 2016 fiscal year budgets.

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.

Current Year Comments

Police Details and Firearms Permits

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 are not provided to the accounting office and there are currently no reconciliations performed to account for the amounts 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 increased from \$54,000 in prior year to \$67,000 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 for the police details and firearms permits. 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.

Reconciliation of Treasurer's Cash Book Balances

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 has hired an outside consultant to complete these reconciliations in order to close the Towns' books.

The number one responsibility of the Treasurer is to reconcile cash to the bank and to the Town Accountant on a monthly basis and in a timely manner. While cash was ultimately reconciled at year end, there were significant delays in the process which hindered the closing process (see comment above). Additionally, significant reliance is placed on the bank to reconcile the vendor and payroll account, resulting in little or no monitoring of the account by the Treasurer. This is an element of internal control that must be addressed as, just recently, a similar situation in another community resulted in the theft of approximately \$35,000.

Recommendation

We recommend that the Treasurer implement procedures to ensure that all bank account balances are reconciled to the Treasurer's book balances on a monthly basis. This will facilitate the identification and correction of reconciling items on a timely basis.

Budget Development and Monitoring

Comment

During the audit we involved ourselves in discussions with both the Town Accountant (Accountant) and the Assistant Superintendent of Schools for Business and Finance (Assistant Superintendent). Our discussions focused on budget development and monitoring.

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 Assistant Superintendent told us that the budget of the school is bottom line focused and that transfers between line-items does 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.

Recommendation

It is our belief that the School should adopt the process of making budget transfers and forgo the "bottom line" approach to budgeting. In doing so the Accountant will be able to carry out her fiduciary duty of prohibiting over expenditures and, we believe, will provide a better tool for the Assistant Superintendent to monitor the budget.

Water User Charges Billing

Comment

The North Carver Water District bills users for water usage. Meters are read on a monthly basis and bills are mailed out on a quarterly basis. The July billing relates to water usage for April, May, and June, of the prior fiscal year and is accrued back as the revenue was earned in the prior year. 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. This is due to the timing of personnel change and lack of a policy and procedure manual for this position.

Recommendation

We recommend that the North Carver Water District develop an accounting policy and procedures manual that clearly defines the various accounting funds performed by the District. The manual should identify who is responsible for performing the function, a timeline for when each function should be completed and detailed procedures indicating how to complete each task. This will protect the district in the event of an unexpected extended absence, personnel change, or to help to train new employees.

Informational Comments

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.

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, 2015, the Town's estimate of this liability totaled approximately \$747,000.

Recommendation

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