

TOWN OF CARVER, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2017



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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, 2017, 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 8, 2018

TOWN OF CARVER, MASSACHUSETTS

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TABLE OF CONTENTS

	<u>PAGE</u>
PRIOR YEAR COMMENTS	1
Fraud Risk Assessment.....	2
Accounting for Septic Loans.....	3
Budgeting Consolidated Town Services.....	3
Procurement Procedures, Documentation and Authorization	3
Documentation of Internal Controls for Federal Grants	4
CURRENT YEAR COMMENTS	6
Cash Collections.....	7
North Carver Water District User Charges Receivable	7
INFORMATIONAL COMMENTS	8
Future Government Accounting Standards Board (GASB) Statements for OPEB	9
Plymouth County Retirement Association Assessment	9

Prior Year Comments

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 2017.

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

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 – These loans are now added to the tax bill and have been paid in full.

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 – Progress had been made in this area as several Town services have been consolidated. However, the School Department’s health insurance continues to be a separate line item within their 2017 fiscal year budget.

Procurement Procedures, Documentation and Authorization

Prior 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 issue 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.

Current Status – No instances similar to this were noted in 2017.

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.

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.

Current Status – It is our understanding that this comment is still unresolved.

Current Year Comments

Cash Collections

Comment

Overall we have found controls over cash to be fairly strong. However, we are aware that several departments are responsible for issuing license and permits that have a fee associated with it and that that fee is usually collected by the department and later turned over to the Collector.

In order to further strengthen internal control over cash the Town may want to consider two avenues: 1) stress that it is preferable that payment be made by check or 2) if payment is made by cash that the payee first pay the collector, receive a receipt confirming payment, and present the receipt to the department that they are interacting with.

This will eliminate cash being handled at the department level.

Recommendation

Where appropriate, consider limiting cash collections at the department level.

North Carver Water District User Charges Receivable

Comment

User charges receivable are committed and collected in the Planning Department (Department). At one point a couple of years ago, the reconciliation of the general ledger to the Department's QuickBooks was nearly complete. However, due to personnel changes that have occurred in the Department the reconciliation process appears to have stopped completely.

Additionally, we also noted that: 1) the Department is unable to produce an accurate list of accounts receivable outstanding as of any particular date; 2) during FY17 the Department did not consistently provide commitments to the Accounting Department and 3) the Department did not communicate when receivable balances were written off.

Recommendation

We recommend that the Department sit down with the Accounting Department and develop a process whereby a receivable reconciliation occurs on at least a quarterly basis and that all commitments and adjustments be communicated in a contemporaneous manner.

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 standard that has been issued is called GASB Statement #75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions and is required to be implemented in fiscal year 2018.

To briefly summarize these new standards –

- GASB #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 standard, the Town should expect to record significant OPEB liabilities in 2018. While this GASB's does not go into effect until 2018, we wanted to make the Town aware of the impact that these new standards will have on financial statement reporting and disclosures.

Plymouth County Retirement Association Assessment

Comment

During discussions with management of the Town it was expressed that maybe the Plymouth County Retirement Association's appropriation would be lower if the Town was assessed as an individual entity and not part of an overall pool. In other words, could the Town be paying more than its fair share due to another member community's mortality experience or enrollment data? For example, if Carver's annual COLA is 1% and other communities award an annual 3% COLA, could this be leading to the Town to paying a disproportionate share of the annual assessment? Furthermore, is this disproportionate share compounding over time?

The only way to determine if this were true would be for the System's actuary to determine each members contribution based on an individual actuarial report. There are other systems that do this. However, it must be done in its entirety or not at all