

TOWN OF GROVELAND, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2013



100 Quannapowitt Parkway
Suite 101
Wakefield, MA 01880
T. 781-914-1700
F. 781-914-1701
www.powersandsullivan.com

To the Honorable Board of Selectmen
Town of Groveland, 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 Groveland, Massachusetts as of and for the year ended June 30, 2013, (except for the Groveland Municipal Light Department which is as of and for the year ended December 31, 2012) in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 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 consider the deficiencies in the Town's internal control as presented in the memorandum that accompanies this letter to be material weaknesses.

We also became aware of other matters that are opportunities for strengthening internal controls and enhancing operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

This communication is intended solely for the information and use of management of the Town of Groveland, Massachusetts and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Powers & Sullivan, LLC

February 6, 2014

TOWN OF GROVELAND, MASSACHUSETTS

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Material Weakness #1

INADEQUATE DESIGN OF INTERNAL CONTROL OVER THE PREPARATION OF FINANCIAL STATEMENTS BEING AUDITED

Comment

The following matters, reported as material weaknesses and significant deficiencies in our previous five audits, were not completely resolved during our audit of the Town for fiscal year ending June 30, 2013. Overall our comments in this section relate to three control deficiencies that we believe should continue to be regarded as material weaknesses in internal accounting control.

1. Ineffective oversight of the Town's financial reporting and internal control by those charged with governance.
2. Identifications by the auditors of material misstatements in the financial statements for the period under audit that were not initially identified by the Town's internal controls.
3. Employees or management who lack the qualifications and training to fulfill their assigned functions, i.e. the person responsible for the accounting and reporting function lacks the skills and knowledge to apply GAAP in recording the Town's financial transactions and preparing its financial statements.

In addition to the points mentioned above, we noted a separate set of books on an Excel spreadsheet listing operational and financial information. This spreadsheet is outside the scope of the Town's internal control structure and it does not reconcile to the general ledger. Additionally, it is outside the scope of the system controls for accuracy and completion.

The accounting department has completed its installation of new accounting software and has been in the process of designing new and updated policies and procedures under the direction of the Finance Director, and is also obtaining municipal accounting and software training on an on-going basis. However we continue to note the lack of internal controls over financial reporting and we believe these observations are still applicable during our audits of the financial statements for the year ended June 30, 2013.

Continuing Recommendation

In order to strengthen internal control over financial reporting, we recommend that management continually re-evaluate the roles and responsibilities of the accounting and finance departments to ensure that the books and records of the Town are being maintained in accordance with internal policy and with legally prescribed external requirements. It is also recommended that only one set of books be maintained that is covered by the Town's internal controls in order to increase the dependability and accuracy of the information and to ensure that all users are working from the same information in order to make wise, informed decisions in their respective responsibilities.

Material Weakness #2

JOURNAL ENTRY SUPPORT

Comment

During our review of journal entries posted to the Town's general ledger we noted instances where the journal entry documentation that was being maintained was inadequate to support the transactions selected for testing.

We also noted instances where journal entries in significant dollar amounts were made to "true up" the general ledger to the Excel spreadsheets mentioned in the previous comment. These journal entries were made with no supporting documentation and we were unable to obtain sufficient audit evidence to satisfy ourselves as to the sufficiency of the overall internal controls over maintenance of the general ledger.

Continuing Recommendation

In order to strengthen internal controls over financial reporting we recommend that all entries posted to the general ledger be made only after adequate supporting documentation has been obtained and made available for review by others.

Material Weakness #3

RECORDING ACTIVITY DIRECTLY TO FUND BALANCE

Comment

We noted that a significant number of revenue and expenditure transactions were recorded directly to fund balance accounts in the general ledger rather than the subsidiary revenue and expenditure ledgers.

Recording amounts directly to fund balance prevents the general ledger from reporting an accurate and complete account of all financial activity and circumvents the budgetary controls in place in the appropriation ledger. Consequently, numerous accounts had to be manually analyzed to report all revenues and expenditures. Such a process significantly inhibits timely and accurate internal financial reporting and external reporting.

Continuing Recommendation

We recommend that no activity be recorded directly to fund balance accounts other than reclassifications between the components of the fund balances.

Material Weakness #4

RECONCILIATIONS OF CASH AND ACCOUNTS RECEIVABLE TO THE GENERAL LEDGER

Comment

In the prior year we were not provided with documented evidence that the Town Accountant is reconciling the Treasurer's cash balances to the general ledger on a monthly basis. When inquiring about this process, which we had been provided with in prior audits, we were informed that the monthly reconciliation was being performed however this information could not be produced for the 2012 audit. During our review of the reconciliation of cash for fiscal year 2013, we noted that two reconciliations were being performed separately by the Accountant's office and the Treasurer's office without reconciliation between the two to provide one reconciliation that is understood and agreed upon by both departments.

In addition, we noted unreconciled variances in a number of accounts receivable accounts including significant variances in the water and sewer funds due to unposted commitments and betterments. It appears to us that there is a lack of communication occurring between the accountant's office and the collector as these variances were resolved for the most part during our audit fieldwork.

Continuing Recommendation

In order to strengthen internal controls over financial reporting we recommend that the Town Accountant develop and document a monthly process for reconciling cash and accounts receivable balances to the general ledger from the source documents maintained by the Treasurer and Collector.

Current Year Comments

ACCOUNTING FOR COMMUNITY PRESERVATION ACT FUNDS (CPA)

Comment

The Town has a separately established CPA fund that accounts for the activity of the Community Preservation Act funds which include balances that are restricted for open space, historic preservation, and community housing. In each of the past several years audit adjustments were necessary to reclassify activity that are posted incorrectly. Revenue and expenditure activity is run through several balance sheet accounts. This prevents the general ledger from reporting an accurate and complete accounting of all financial activity and circumvents the budgetary controls in place in the ledger.

Recommendation

We recommend that the Town discontinue the current practice and record the CPA activity to the appropriate revenue and expenditure accounts.

Other Matters Previously Reported

FRAUD RISK ASSESSMENT

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 indicated 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.

Recommendation

We recommend that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation. Department heads should provide information detailing any activities within their departments that may lend themselves to potential fraud, i.e. identification of idle cash or collections that don't get turned over daily or instances where internal controls over Town assets are not in place or are not functioning as intended.

Status – *Unresolved*. The Town has not developed or implemented a fraud risk assessment.

INTERNAL PROCEDURE MANUALS

Comment

We noted that most departments do not maintain a formal internal procedure manual documenting day-to-day processing and controls. Since the Town is limited in the number of employees, the Town is at risk if critical tasks cannot be completed due to an extended absence.

Recommendation

We recommend that an internal procedures manual be developed for each department. The document should be written in sufficient detail so that a person unfamiliar with the department's operations could complete the day-to-day critical tasks. Additionally, this document should be updated for any system changes. A master manual of all procedures should be maintained and stored in a secure, centralized location.

Status – *Unresolved*. The Town has begun the process of developing an internal procedures manual.

Informational Comment

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

Current 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 2013 and will substantially impact the Town's 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 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 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.

The Town should expect to record significant pension and OPEB liabilities in the future.

Recommendation

While the most significant changes from these GASB's do not go into effect until FY2014 and FY2015, we wanted to make the Town aware of the magnitude these changes will have on financial statement reporting and disclosures. The Town should plan 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 financial statement users.