

TOWN OF GROVELAND, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2014

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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, 2014, (except for the Groveland Municipal Light Department which is as of and for the year ended December 31, 2013) 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 being corrected.

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 being corrected.

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 26, 2015

TOWN OF GROVELAND, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2014

CONTENTS

PAGE

Material Weaknesses Being Corrected

Inadequate Design of Internal Control over the Preparation of Financial Statements being Audited	2
Journal Entry Support	3
Recording Activity Directly to Fund Balance	3
Reconciliations of Cash and Accounts Receivable to the General Ledger	3

Current Year Comments

Board of Selectmen Minutes	6
Personnel Earnings Records	6
Police Details	7
Bank Accounts and Activities Not Controlled by the Treasurer	7
Tax Title and Foreclosures	8
Improper Reimbursement Accounts	8

Other Matters Previously Reported

Fraud Risk Assessment	10
Internal Procedure Manuals	11

Informational Comment

Future Government Accounting Standards Board (GASB) Statements for Pensions and OPEB	13
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MATERIAL WEAKNESSES BEING CORRECTED

MATERIAL WEAKNESSES BEING CORRECTED

The following comments and recommendations were reported in our prior year Management Letter dated February 6, 2014. Because of the significance of the matters involved, the comments are being repeated currently, with an update explaining the changes and progress made during FY2014 and to date during FY2015 to resolve the matters.

The changes made during FY2014 relate to a new Finance Director who joined the Town and is now assuming responsibility for all aspects of the Town's financial reporting system.

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 six audits, were not completely resolved during our audit of the Town for fiscal year ending June 30, 2014. Overall our comments in this section relate to three control deficiencies that we believe should be regarded as material weaknesses in internal accounting control that are being corrected.

1. Ineffective oversight of the Town's financial reporting and internal control by those charged with governance.

Current Status: This matter will be resolved by the new finance director taking responsibility for these matters.

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.

Current Status: We did not encounter any material misstatements in the FY2014 financial statements during our current year audit.

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.

Current Status: This matter will be resolved by the new finance director taking responsibility for these matters.

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.

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.

Current Status: During our FY2014 audit we noted significant improvements in this area and only noted one instance from our testing where an immaterial entry was posted without supporting documentation.

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 and appropriate approvals have 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.

Current Status: During our FY2014 audit we noted significant improvements in this area as well and only noted several statutory accounting entries hitting fund balance that were easily identified and several other system generated entries where coding changes are needed that the finance director is addressing.

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 previous years we were not provide 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 we were informed that the monthly reconciliation was being performed however this information could not be produced for the 2012 audit. In 2013, we noted that two reconciliations were being performed separately by the Accountant's office and by the Treasurer's office without the two departments agreeing on a final cash balance that was in agreement with the general ledger.

Current Status: During our 2014 audit, we noted that the reconciliation process was combined once the new finance director came on board. There remains an immaterial favorable variance in the reconciliation that the finance director has identified and this amount will be corrected in FY2015 through the normal warrant process.

For accounts receivable, we noted that during our audit field work the finance director, the town accountant, and the collector were able to reconcile receivables with just minor variances. It appears to us that the parties involved have made the necessary process changes to be able to reconcile these balances on a monthly basis going forward.

Continuing Recommendation

In order to strengthen internal controls over financial reporting we recommend that the Town Accountant develops and documents 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

Current Year Comments

BOARD OF SELECTMEN MINUTES

Comment

As of the end of our audit field work the Town only had meeting minutes of the Board of Selectman available through January 2014. We were informed that the meeting minutes for all subsequent meetings were not compiled and that the notes from those meeting are located somewhere offsite and are not available to concerned parties. Meeting minutes are an important part of the Town's records and should be prepared in a timely manner and kept in a safe place where they can be readily available and retained permanently.

Recommendation

We recommend that all minutes be prepared in a timely manner and be kept on file for permanent retention.

Finance Director Response

Since November 2014, all meeting minutes have been prepared and distributed to the Board of Selectmen to vote by the subsequent meeting. We do not anticipate having any issues keeping with this standard going forward. Regarding the prior year's minutes, they are expected to be caught up and approved prior to the end of fiscal 2015.

PERSONNEL EARNINGS RECORDS

Comment

As part of payroll transaction testing, we were unable to verify thirteen employee's pay rates out of a sample of twenty five employee files because the employee files did not contain personnel earnings records documenting the employee's pay rate, pay grade or pay step, as applicable. The Commonwealth of Massachusetts "Municipal Records Retention Manual" states that these records should be maintained as a permanent record of the Town.

Recommendation

We recommend that the Town implement policies and procedures to ensure that all employee files include personnel earnings records as stated in the Municipal Records Retention Manual.

Finance Director Response

During FY15, I have implemented a new form which must be completed and signed off before any rate changes (contractual or otherwise) are paid. One form must be filled out for each employee and said form will be filed in the employees personnel file. In addition, we currently have two sets of files that make up the official personnel files, and many departments maintain their own files for employees. Those files will be consolidated into one official personnel file that satisfies the Records Retention Law.

POLICE DETAILS

Comment

The Town has not conducted reconciliation procedures between the Police detail agency account and the outstanding police detail receivable records maintained at the Police Department.

It is important for the Town to reconcile this account to the detailed receivable listing on a regular basis to ensure that the amount reported per the ledger is correct, to verify that the detailed listing is correct and that the Town is taking the appropriate steps to collect outstanding balances, and to minimize the possibility of creating a permanent deficit that would ultimately need to be funded by the Town.

Recommendation

We recommend that the Town Accountant's office and the Police Department implement procedures to reconcile the Police detail balance from the Police Department's software to the general ledger on a quarterly basis at a minimum.

Finance Director Response

We are currently waiting on a quote from the current software vendor to add on the Details Module that will assist the Police Department in tracking details and offering a method for reconciling. We are hopeful to have this in place and operational by the end of Fiscal 2015.

BANK ACCOUNTS AND ACTIVITIES

Comment

Public funds for the Town should be held in the custody of the Treasurer. Boards, commissions, and others not excluded by law of the Town should not have their own federal tax identification number and bank accounts. Monies received are general fund monies unless for an allowable, specified purpose. These receipts are then available for appropriation before funds can be distributed. Through discussions with management, several accounts were noted that were not in the custody of the Treasurer and expenditures from these accounts were not going through the Town's authorization process. Spending funds outside of the internal controls of the Town increases the risk of noncompliance with laws and regulations.

Recommendation

We recommend that the bank accounts not in the custody of the Treasurer that have funds of the Town be closed and given to the Treasurer. We also recommend that the process of spending without appropriation be discontinued.

Finance Director Response

I am working to identify those accounts not in the custody of the Treasurer and I will have all funds turned over to the Town and properly recorded on the General Ledger.

TAX TITLE AND FORECLOSURE

Comment

A review of Treasury records indicates that the detail balance is more than 5 years old and some properties have been in tax title as long as 31 years. Properties placed into tax title in accordance with Massachusetts General Laws represent the Town's perfected interest to ensure future payment for back taxes. Therefore, it is in the Town's interest to convert properties acquired through tax title into cash and to ensure the list of tax title is accurate and updated appropriately.

Recommendation

We recommend the Town investigate the tax title and foreclosure balances and establish policies and procedures to ensure tax title and foreclosures are completed timely and appropriately.

Finance Director Response

Since I began in March 2014, this has been a top priority for me. My staff and I have been going through all tax accounts to see what parcels are in tax title or foreclosure. We have been conducting research through the Registry of Deeds and with the Assessor's Office to determine which parcels have had a change in ownership so we know what parcels we may legally complete a tax taking for. Unfortunately, given the number of parcels and the inconsistent data it has been a slow process. Records have been flagged as foreclosed, but no official foreclosure ever occurred, and the same with tax takings. My hope is to have updated information by the end of fiscal 2015 and be in the process of moving forward with any new tax takings. Once that is complete, we will begin the foreclosure process. It is my expectation that once the tax files are accurately reported, every year by September 30th we will begin a tax taking for the prior year's outstanding taxes.

INAPPROPRIATE REIMBURSEMENT ACCOUNTS

Comment

Funds received by the Town are considered general fund money unless for a specified purpose. It was noted that several departments have their own reimbursement and receipt accounts that are used for other miscellaneous revenue of which is spent without going through the Town's approval process. In addition to spending without appropriation, averting the approval process also increases the risk that procurement and other laws and regulations are not being followed.

Recommendation

We recommend the Town discontinue this practice of utilizing reimbursement accounts and all applicable funds be deposited in the general fund and properly appropriated.

Finance Director Response

This issue has been an ongoing process since I began last year. To date, I have identified many inappropriate reimbursement accounts and stopped them going forward. I am working to identify all other inappropriate accounts and practices and any found will be rectified in a timely fashion.

OTHER MATTERS PREVIOUSLY REPORTED

Other Matters Previously Reported

FRAUD RISK ASSESSMENT

Previous 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.

Continuing 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

Previous 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.

Continuing 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

Previous 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 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 #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 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 #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.

Continuing Recommendation

We have recommended 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.