

TOWN OF GROVELAND, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2015



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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, 2015, (except for the Groveland Municipal Light Department which is as of and for the year ended December 31, 2014) 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 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. 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.

During our audit 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.

The Town's written responses to the matters identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

March 24, 2016

TOWN OF GROVELAND, MASSACHUSETTS

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MATERIAL WEAKNESSES

Material Weakness #1

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

Prior Comment

The following matters, reported as material weaknesses and significant deficiencies in our previous seven audits, were not completely resolved during our audit of the Town for fiscal year ending June 30, 2015. Overall our comments in this section relate to three control deficiencies that we believe should 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.

Current Status: This matter continues to be unresolved as we noted a number of material misstatements in the accounting ledgers maintained by the Town Accountant.

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 encountered a number of material misstatements in the accounting ledgers maintained by the Town Accountant during our 2015 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 remains unresolved as we encountered a number of material misstatements, incorrect accounting entries, and unreconciled accounts during our 2015 audit.

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.

Finance Director's Response

This has been an area of constant focus. Unfortunately due to years of lack of oversight and proper training in the Accounting department, weaknesses have occurred. We have spent a tremendous amount of time going over journal entries and reconciliations. I believe the Fiscal 2016 audit will show great improvement in this area.

Material Weakness #2

JOURNAL ENTRY SUPPORT

Prior 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 2015 we noted that all journal entries we reviewed contained supporting documentation of some manner; however, a number of the entries we reviewed were incorrect, unnecessary, or applied to incorrect accounts.

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 appropriate approvals have been obtained and made available for review by others.

Finance Director's Response

As with the first material weakness, this has again been a large hurdle. It has been a work in progress to break old habits and get all departments to understand the need for documentation for journal entries. The Town Accountant understands the need to have proper supporting documentation for all journal entries. In addition, for those entries, which require more thought and understanding, the Town Accountant is researching to ensure the correct entry is made. I also believe the Fiscal 2016 audit should show improvement.

Material Weakness #3

RECORDING ACTIVITY DIRECTLY TO FUND BALANCE

Prior 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 FY2015 audit we noted a significant number of manual adjusting entries posted to fund balance accounts on the general ledger.

Continuing Recommendation

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

Finance Director's Response

The Town Accountant has recognized her deficiencies in this area. Recently she has been more cognizant of fund balance and her manual adjusting entries. I am confident we will no longer have activity posted to fund balance, other than to reclassify components of the fund balance.

Material Weakness #4

RECONCILIATIONS OF CASH AND ACCOUNTS RECEIVABLE TO THE GENERAL LEDGER

Prior 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 and 2014, 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. The Accountant's reconciliations were not always properly documented.

Current Status: During our 2015 audit, we noted that timely, consistent reconciliations between the Treasurer's cash balance and the cash balance maintained on the general ledger by the Town Accountant did not occur. We were not provided with the final year-end reconciliation of cash until well after the time of our scheduled audit fieldwork. While the ultimate year-end variance between the treasurer and general ledger was not material for financial reporting purposes, we consider the lack of consistent, timely reconciliations to be a material weakness.

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.

Finance Director's Response

This has been a major area of improvement in the Accounting office during Fiscal 2016. Each month after the receipts are posted, the Town Accountant performs a reconciliation of the Treasurer's Cash to the General Ledger.

OTHER MATTERS PREVIOUSLY REPORTED

BOARD OF SELECTMEN MINUTES

Prior Comment

In the prior year we noted that the Town did not prepare and make available meeting minutes of the Board of Selectman in a timely manner. We were informed that the meeting minutes for a range of dates 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.

Current Status

The Town has implemented procedures where the meeting minutes of the Board of Selectmen are prepared and distributed in a timely manner.

PERSONNEL EARNINGS RECORDS

Prior Comment

As part of payroll transaction testing in a prior year, 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.

Current Status

During a review of current year payroll transactions we noted that all employees tested had a signed pay rate form included in their employee permanent file dated July 1, 2015.

INAPPROPRIATE REIMBURSEMENT ACCOUNTS

Prior 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.

Current Status

The Town has closed all inappropriate reimbursement accounts previously being maintained.

POLICE DETAILS

Prior 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.

Current Status

New software was implemented at the start of fiscal year 2016 to track and reconcile police details.

Continuing Recommendation

We continue to 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 regular basis.

BANK ACCOUNTS AND ACTIVITIES

Prior 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.

Current Status

The Finance Director is working with the necessary parties to transfer custody of all bank accounts under the control of the Town Treasurer.

Continuing Recommendation

We continue to 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 continue to recommend that the process of spending without appropriation be discontinued.

TAX TITLE AND FORECLOSURE

Prior 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.

Current Status

During Fiscal 2016 all past due accounts were placed into tax title. Outstanding taxes back to 2011 were properly advertised and taken in accordance with MGL Ch. 60. In addition, processes have been put in place to perform a tax taking each year after the close of the fiscal year.

Recommendation

We continue to recommend the Town investigate the tax title and foreclosure balances.

FRAUD RISK ASSESSMENT

Prior 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 know 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 re not closely monitored.

Current Status

Management is continuing to work on completing this risk assessment.

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.

INTERNAL PROCEDURE MANUALS

Prior 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.

Current Status

Management has begun the process of developing internal procedure manuals; however formal policy and procedure manuals are not yet in place.

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.

INFORMATIONAL COMMENT

FUTURE GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS

- **GASB Statements #74 and #75** - The GASB has issued new pronouncements that will significantly affect the accounting and reporting requirements for Other Postemployment Benefits (OPEB) similar to the changes that were required for Pensions this current year. This information has been communicated in previous Management Letters and management is preparing for this to occur in fiscal years 2017 and 2018.
- **GASB Statement #77, *Tax Abatement Disclosures***, will require disclosure of the descriptions of tax abatement agreements, the taxes being abated, and the gross dollar amount of the taxes abated during the reporting period. This GASB statement is required to be implemented in 2017.