

TOWN OF GROVELAND, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2016



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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, 2016, (except for the Groveland Municipal Light Department which is as of and for the year ended December 31, 2015) 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.

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.

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.

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 them.

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

April 27, 2017

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, 2016. 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 2016 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 2016 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. The current Town Accountant will be retiring at the end of Fiscal Year 2017 and this will be a top priority with the incoming new hire.

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 2016 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. While I am pleased that the Accountant and the Departments have provided proper documentation for all entries, we still must work on making sure the entry requests are correct and necessary. With a new Town Accountant coming on board, this will be made a priority within the department.

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: Although significant improvement has been made, during our FY2016 audit we still noted a 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

While there was significant improvement in this area, there were still a number of manual adjustments posted to fund balance. We are hopeful that with the change in office staff we can address this item.

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 audit. In other years 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 2016 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 and the town accountant were still working to reconcile receivables and this process continued until well after the time of our scheduled fieldwork.

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 an ongoing issue. Efforts have been put in place to reconcile and ensure all entries are made and recorded in a timely manner. In addition, we have been in contact with our software vendor to automate receivable posting to eliminate clerical errors and to assist with more timely and correct reconciliations.

CURRENT YEAR COMMENTS

INVENTORY OF CEMETERY LOTS

Comment

The Town does not currently have an adequate inventory control system to track the sale of cemetery lots and graves, nor does it have a comprehensive listing of the number of lots currently available. Additionally, during our audit we noted that the cemetery department does not have an adequate process to turn over the collection of funds relating to sales of lots and graves to the Town Treasurer in a timely manner.

Recommendation

The Town should develop a comprehensive inventory of all cemetery lots currently available for sale. Once this inventory listing has been created and substantiated, the Town should implement an inventory control system where the collection of funds is reconciled on a monthly basis with the outstanding inventory listing. To facilitate this process the Town should consider purchasing and implementing an electronic inventory control system. These electronic systems have the benefit of being able to invoice lot sales, create work-orders, document the turnover of collections, and enhance the overall control environment.

Finance Director's Response

The Cemetery Commissioners have requested funds from the 2017 Town Meeting to purchase and implement comprehensive software to track all lots and cemetery finances. In addition, the current Cemetery Chair has done a tremendous job organizing the files and records in the cemetery office and has researched all financial transactions. Finally, the Cemetery Commissioners are in the process of writing a full operating procedure manual to document what must happen with every lot purchase, transfer, burial, and donation.

OTHER MATTERS PREVIOUSLY REPORTED

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

The Police Department has acquired the software necessary to adequately track Police detail activity in order to facilitate a reconciliation process with the Town general ledger; however, the reconciliation process has yet to begin.

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.

Finance Director's Response

During FY17, procedures were put in place to reconcile the detail balance between the Police and Accountant on an ongoing 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

Discussions with management indicate that while a number of accounts have been either closed or brought under the custody of the Town Treasurer, certain accounts still exist outside the custody of the Town Treasurer; notably the library trust funds account which had a year-end balance of \$120,795.

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 also be discontinued.

Finance Director's Response

The Town has been in a stalemate with the Board of Library Trustees who refuse to turn over the Library Trust funds to the custody of the Town Treasurer. It has been a heavily discussed topic and the Board of Selectmen fully support the recommendation that all funds should be turned over to the Treasurer.

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 2016 the Town processed a new tax taking by placing a lien on outstanding real estate taxes. While the Town has implemented a process to lien properties in a timely manner, we note that procedures have yet to be implemented where the Treasurer/Collector balances are reconciled with the Town general ledger balances.

Recommendation

We continue to recommend the Town implement procedures were the tax title and tax foreclosure balances are reconciled with the Town general ledger.

Finance Director's Response

During Fiscal 2017, we made great strides with the reconciliations; in addition, we plan to work with the software vendor to ensure that the proper journal entries are created when properties are placed into tax title.

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 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

The Town has not developed or implemented a fraud 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.

Finance Director's Response

We are still working on this recommendation. While we have made strides here over the last two years, we do not have any formal policies or manuals in place as of yet.

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

The Town has begun the process of developing an internal procedures manual; however, a formal draft has yet to be completed.

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.

Finance Director's Response

We are still working on this recommendation. While we have made strides here over the last two years, we do not have any formal policies or manuals in place as of yet.

INFORMATIONAL COMMENTS

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.

DOCUMENTATION OF INTERNAL CONTROLS

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.