

***TOWN OF GROVELAND, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2017***



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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, 2017, (except for the Groveland Municipal Light Department which is as of and for the year ended December 31, 2016) 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*

May 17, 2018

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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, 2017. 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.
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.

*Current Status:* These matters continued to be an issue throughout FY2017 as we noted a number of material misstatements in the accounting ledgers maintained by the former Town Accountant, incorrect accounting entries, and unreconciled accounts, however subsequent to year end the Town hired a new Town Accountant. The new Town Accountant has worked towards remedying prior accounting errors, catching up on account reconciliations, as well as improving financial processes.

#### Finance Director's Response

Unfortunately due to years of lack of oversight and proper training in the Accounting department, weaknesses have occurred. As of July 1, 2017, we have a new Town Accountant and this has been a top priority for her.

## ***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 2017 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. Although unresolved throughout 2017, subsequent to year end the Town hired a new Town Accountant. The new Town Accountant has developed a process where supporting documentation is maintained for all manual adjusting journal entries.

Finance Director's Response

While I am pleased that the Accountant and Departments have provided proper documentation for all entries, we still must work on making sure the entry requests are correct and necessary. Our new Town Accountant has developed a process to ensure all journal entries have proper documentation and are correct and necessary prior to any manual adjustments are made.

**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 2017 audit we still noted a number of manual adjusting entries posted to fund balance accounts on the general ledger. Although unresolved throughout 2017, subsequent to year end the Town hired a new Town Accountant. Discussions with the new Town Accountant indicate that processes have been implemented where no general ledger operating activity is posted directly to fund balance.

Finance Director's Response

Our new Town Accountant has implemented a process to ensure no operating activity is posted directly to 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 was 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 FY2017 cash and receivable account reconciliations were not completed in a timely or accurate manner. As of the date of this report we note that significant progress has been made towards completing these reconciliations, as well as developing processes where activity is reconciled regularly between the Treasurer/Collector's office records and the general ledger.

*Continuing Recommendation:* We recommend that the Town Accountant and the Treasurer/Collector continue to work towards developing procedures to reconcile cash and receivable accounts on a monthly basis.

### Finance Director's Response

As of July 1, 2017, we implemented VADAR automated processing to assist with these reconciliations. Every month after cash is posted the new Town Accountant reconciles both cash and AR and identifies and investigates any discrepancies.

***OTHER MATTERS PREVIOUSLY REPORTED***

## **INVENTORY OF CEMETERY LOTS**

### Prior 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.

### Current Status

The Town has organized the files and records in the cemetery office, and is in the process of writing a full operating procedure manual to document the lot purchases, transfers, burials, and donations. Additionally, the Town is in the process of purchasing comprehensive software to track all lots and cemetery finances. Although steps have been taken to resolve this issue, a formal inventory control system was not implemented in 2017.

### Continuing 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 finalized a draft of their new operating procedure manual to document what must happen with every lot purchase, transfer, burial, and donation. This is expected to be approved by the Commission in Fiscal 2018. In addition, software has been purchased to automate the cemetery operations; unfortunately, due to staff turnover as of May 2018, the software has yet to be implemented.

## **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, and in 2017 this software was implemented. Although the police detail activity has been tracked and maintained in the new software program, we note that procedures have yet to be implemented where the outstanding receivable

balance is reconciled between the Police department and the Accounting office.

Continuing Recommendation

We recommend that the Accounting office and Police department establish procedures where the outstanding details receivable balance is reconciled on a monthly basis.

Finance Director's Response

With the new Town Accountant coming on board beginning in FY2018, 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

During 2017 all significant outside accounts have been brought under the custody of the Town Treasurer.

Finance Director's Response

While the Board of Library Trustees still holds custody of their funds, they are invested with a trust manager who requires the Town Treasurer to be identified on the account.

**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 2017 the tax title account was substantially reconciled to the underlying records.

## Finance Director's Response

Currently all tax title accounts are reconciled and up to date.

## **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 yet 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

While we do not have a formal policy, I have engaged department heads to think about their departments in relation to fraud. I've asked them to think about specific areas of weakness that may not rise to fraud, but have that potential. In addition, in FY18 I began working on a formal Fraud Risk Policy using the Inspector General's 2005 Guide for assistance.

### **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

Employees have begun working on documenting their procedures with the hopes of formalizing a full manual.

## ***INFORMATIONAL COMMENTS***

## **FUTURE GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS**

### Comment

The GASB has issued a new pronouncement that will significantly affect the accounting and reporting requirements for Other Postemployment Benefits (OPEB). This new standard will substantially impact the Town's financial statements and will also affect the requirements for accumulating the necessary data to meet the reporting requirements. A brief summary of the new standard and its effective date are as follows:

- The GASB issued Statement #75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which is required to be implemented in 2018.
- GASB #75 will substantially change the reporting for other postemployment benefit 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.

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

## **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](http://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.