

***TOWN OF GEORGETOWN, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2012***

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To the Honorable Board of Selectmen  
Town of Georgetown, 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 Georgetown, Massachusetts, as of and for the fiscal year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the Town's 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.

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 a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

However, during our audit we became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning other matters.

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

*Powers & Sullivan LLC*

March 14, 2013

TOWN OF GEORGETOWN, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2012

**TABLE OF CONTENTS**

|   | <b>PAGE</b> |
|---|-------------|
| <b><i>Previous Year's Comments</i></b> .....  | 1           |
| Fraud Risk Assessment.....  | 2           |
| Water Commitments and Receivable Reconciliation.....                                      | 3           |
| Authorized and Unissued Debt Authorizations .....   | 3           |
| Audit of Student Activity Funds.....  | 4           |
| <b><i>Informational Comments</i></b> .....  | 5           |
| Future Government Accounting Standards Board (GASB) Statements for Pensions and OPEB..... | 6           |
| Reserve Fund for Future Payment of Compensated Absences .....                             | 7           |

## ***Previous Year's Comments***

## **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 indicates 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.

We recommended that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation

### Status – Resolved

The Town has implemented a fraud risk assessment program.

## **Water Commitments and Receivable Reconciliation**

### Prior Comment

The Town's water commitments have not been recorded in the general ledger and the accounts receivable balances have not been reconciled from the general ledger to the supporting detail. Reconciling both the activity and the ending balances of the water accounts receivable is an integral internal control procedure. The purpose of this important internal control is to safeguard the assets of the Town and provide reasonable assurance that transactions effecting these receivables are executed in accordance with management's authorization and recorded properly in the Town's ledgers. Without monthly reconciliations, the possibility of errors and/or omissions occurring and not being detected in a timely manner increases.

We recommended the water commitments be recorded in the general ledger and the water accounts receivable balance be reconciled on a monthly basis. The timely reconciliation of these receivables will enable the Town to detect errors and discrepancies in a more effective and efficient manner, thereby strengthening the overall internal controls of the Town.

### Status – Unresolved

The Town has not yet implemented procedures to reconcile the water accounts receivable on a monthly basis.

## **Authorized and Unissued Debt Authorizations**

### Prior Comment

The Town had two authorized and unissued debt authorizations which were outstanding for several years. Septic improvements of \$400,000 were authorized in 2002, and were unissued as of June 30, 2012. School textbooks of \$95,700 were authorized in 2004, and \$700 was still unissued as of June 30, 2012. The Town should vote to rescind projects if they are not planning on utilizing the additional debt authorizations.

We recommended that the Town rescind the remaining debt authorizations related to the septic improvements and school books that they do not plan to issue.

### Status – Resolved

The Town voted at the October 29, 2012 Special Town Meeting to rescind the old outstanding authorized and unissued debt authorizations.

## **Audit of Student Activity Funds**

### Prior Comment

The Massachusetts Association of School Business Officials (MASBO) published a student activity accounts manual, in May of 2007, to assist school districts with the operation and management of student activity accounts under the provisions of Massachusetts General Law (MGL), Chapter 71, Section 47, as amended by Chapter 66 of the Acts of 1996. To comply with the MGL, the MASBO recommends that annual audits of the student activity funds be performed. The audit may be an internal audit conducted by the school business administrator, if so approved by the School Committee. However, at least one time every three years, the audit should be performed by an independent audit firm.

We recommended that the Town implement policies and procedures to comply with the MASBO recommendation.

### Status – Unresolved

The Town plans to look into having an audit of the student activity funds in fiscal year 2013.

## ***Informational Comments***

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

### Comment

The GASB has issued new pronouncements that will significantly affect the accounting and reporting requirements for Pensions and Other Postemployment Benefits (OPEB). These new standards will start to phase in during fiscal year 2013 and will substantially impact your 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 #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015.

The GASB is expected to issue additional standards following #67 & #68 for Pensions, which will similarly affect accounting and financial reporting for OPEB Plans. The GASB is encouraging earlier application of these standards. To briefly summarize these new standards –

- GASB #63 and GASB #65 will require reporting each of the financial position elements in a separate section in the statements of financial position. These elements are Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position; where assets + deferred inflows – liabilities – deferred inflows = net position. These new requirements will affect certain aspects of the financial statements currently and they will pave the way for the new reporting requirements of the new Pension and OPEB standards.
- GASB #67 and #68 will substantially change the reporting for pension liabilities and expenses. Changes in pension liability will be immediately recognized as pension expense or reported as deferred outflows/inflows of resources depending on the nature of the changes. Substantial changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes will be required. Current actuarial methods may continue to be used to determine funding amounts. Employers will report in their financial statements a *net pension liability (asset)* determined annually as of the fiscal year end. *Net pension liability (asset)* equals the total pension liability for the plan net of the plan net position. Pension liability is the actuarial present value of projected benefits attributed to past service, and plan net position is the accumulated plan assets net of any financial statement liabilities of the plan.

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

### Recommendation

We recommend 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.

## **Reserve Fund for Future Payment of Compensated Absences**

### Comment

Effective July 3, 2012, Chapter 40, Section 13D, provides a city, town, or school district with the ability to establish a reserve fund for the future payment of accrued liabilities for compensated absences due any employee or full-time officer upon termination of employment.

At June 30, 2012, the Town's estimate of this governmental liability totaled \$281,000.

### Recommendation

The Town should consider accepting the provisions of this section with the goal of incrementally funding this liability.