

TOWN OF GEORGETOWN, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2013

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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 year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Georgetown, Massachusetts' 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.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and 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.

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 24, 2014

TOWN OF GEORGETOWN, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2013

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Prior Year Comments

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 affecting 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 – Partially Resolved

During fiscal year 2013, the Town has continued the process of recording periodic adjustments to the receivable balance on the general ledger rather than recording the actual activity and reconciling the balance. However, subsequent to year end, the Town hired a new Water General Manager who has begun the process of addressing this comment. The Town has also hired a consultant who, as of November 2013, has begun the process of implementing a monthly reconciliation system for the receivable account. As a result, the Town anticipates full resolution of this comment in fiscal year 2014.

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 – Resolved

The School Department has implemented an audit schedule that complies with the MASBO recommendation.

Reserve Fund for Future Payment of Compensated Absences

Prior 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.

Last year we recommended that the Town consider accepting the provisions of this section with the goal of incrementally funding this liability.

Status – Resolved

The Town has started the process of incrementally funding the compensated absence liability.

Current Year Comments

ESCO Monitoring

Comment

The Town has entered into an agreement with an Energy Service Company (ESCO) for upgrades at several Town and School buildings. This project has anticipated savings over a 15 year period in the form of a reduction to electricity and gas costs. Substantial construction related to the project was completed during fiscal year 2013 and the energy savings period is anticipated to begin in fiscal 2014.

Embedded in the ESCO agreement is the stipulation that should the Town not meet their projected savings, the ESCO would reimburse the Town for the difference.

Recommendation

We recommend that the Town develop a strategy to monitor electricity and gas costs to determine if the savings target is being met or if the Town is entitled to a refund.

Accounting for Fixed Assets

Comment

Since the implementation of GASB #34, the Town has compiled a detailed listing of capital assets owned by the various departments of the Town. Maintaining this list requires the Town to account for all additions, deletions, disposals and transfers of fixed assets. The Town has annually accounted for fixed asset additions through the purchasing process, however, procedures have not been implemented to properly account for deletions, disposals or transfers of assets. In order to maintain a complete and accurate fixed asset listing, the Town needs to develop procedures to facilitate accurate fixed asset reporting.

Recommendation

We recommend that the Town develop and implement policies and procedures to insure the proper accounting for all fixed asset deletions, disposals and transfers.

I-9 Documentation

Comment

Form I-9 is used to verify the eligibility of an employee to work in the United States. Employers are required to verify this employment eligibility for every employee and to retain Form I-9 on file for three years after the date of hire or one year after employment is terminated, whichever is later. An employer must have a completed Form I-9 on file for all employees hired after November 6, 1986.

The Town was unable to provide complete I-9 forms for 7 of the 30 employees selected for testing. As a result, the Town is not in compliance with employment laws and could be subject to fines or penalties.

Recommendation

We recommend that the Town review their current process for obtaining and maintaining Form I-9 and implement a process to assure that they have the required Form I-9 for all Town and School employees hired after November 6, 1986.

Chapter 90 (Highway) Reimbursement Requests

Comment

At June 30, 2013, the Town had a cash deficit in the Chapter 90 grant account of approximately \$104,000, of which no requests for reimbursement had been submitted with the state as of August, 2013. The Chapter 90 program requires funds to be spent on approved projects prior to requesting reimbursement from the State. The process of not requesting reimbursement of Chapter 90 project expenditures in a timely fashion develops internal control weaknesses. First, the Town experiences decreased cash flows and lost investment earnings while awaiting reimbursement. Second, the Town is at risk of jeopardizing its reimbursement from the State if the reimbursement request is delayed. Finally, a deficit balance has a negative impact on the Town's certified free cash, leaving fewer funds available for appropriation and immediate use for other Town purposes.

Recommendation

We recommend that the Town review its policies and procedures for requesting Chapter 90 reimbursements and implement procedures to request funds on a quarterly basis at a minimum.

Procurement Compliance

Comment

The Town was unable to provide a signed contract for construction services for one of the transactions selected during audit testing. As a result, the Town is not in compliance with state procurement laws related to this contract.

Recommendation

We recommend that the Town strengthen controls over procurement to ensure compliance with state procurement laws.

Informational Comment

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 2014 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 #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 #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 outflows – liabilities – deferred inflows = net position. This new requirement 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 also want to consider how and when this information should be communicated to your constituents and other financial statement users.