

TOWN OF GEORGETOWN, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2016

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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 Town of Georgetown, Massachusetts, as of and for the year ended June 30, 2016, 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 audit procedures that are appropriate in the circumstances 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.

However, during our audit we became aware of several matters that represent 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 27, 2017

TOWN OF GEORGETOWN, MASSACHUSETTS

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Prior Year Comments

ESCO Monitoring

Prior 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 began 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. The Town has not implemented a well-documented process for verifying that the Town has met their projected savings.

We recommended 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.

Current Status – Resolved

For the first three years after completion of the project, the Town received an annual statement from the ESCO that detailed the Town's electricity and gas usage. The Town did not verify the information provided by the ESCO. The Town has been unable to find an independent consultant to review the report to ensure that the electricity and gas savings are consistent with the ESCO agreement. As a result, we have been unable to confirm that the Town's savings from the ESCO project have been consistent with the agreement. The Town is no longer verifying the savings on an annual basis.

Accounting for Fixed Assets

Prior 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.

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

Current Status – Resolved

The Town completed a full review of their capital asset listing in 2016 to remove any assets in the current listing that are no longer active. The Town is now using the latest capital asset listing and adjusting the current year activity at the end of the fiscal year.

Fixed Asset Capitalization Policy

Prior Comment

As part of the implementation of GASB #34, the Town had an initial accounting completed of all of their fixed assets. At that time, the Town established \$5,000 as their threshold in determining which expenditures are capitalized and depreciated.

Based on the size of the Town's asset base and the types of assets being purchased and/or constructed, the Town should reevaluate the initial fixed asset policies adopted and consider the implementation of a higher dollar threshold for fixed asset capitalization. This would simplify the process by reducing the number of items that the Town capitalizes without significantly impacting the financial statements.

Current Status – Unresolved

The Town anticipates adjusting the current capital threshold of \$5,000 to a higher amount during fiscal year 2017.

Informational Comments

Future Government Accounting Standards Board (GASB) Statements for OPEB

Comment

The GASB has issued new pronouncements that will significantly affect the accounting and reporting requirements for Other Postemployment Benefits (OPEB). These new standards will start to phase in during fiscal year 2017 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 #74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which is required to be implemented in 2017.
- The GASB issued Statement #75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which is required to be implemented in 2018.

The GASB is encouraging earlier application of these standards. To briefly summarize these new standards –

- GASB #74 and #75 will substantially change the reporting for other postemployment benefit liabilities and expenses. Changes in the OPEB liability will be immediately recognized as an 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 OPEB liability (asset) determined annually as of the fiscal year end. The net OPEB liability (asset) equals the total OPEB liability for the OPEB plan net of the OPEB plan's fiduciary net position. The OPEB liability is the actuarial present value of projected benefits attributed to for each plan member individually, from the period when the plan member first provides service under the benefit terms through the period in which the member is assumed to exit service. The OPEB plan's fiduciary 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.

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.

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.