

**TOWN OF GEORGETOWN, MASSACHUSETTS**

***MANAGEMENT LETTER***

***JUNE 30, 2017***



100 Quannapowitt Parkway

Suite 101

Wakefield, MA 01880

T. 781-914-1700

F. 781-914-1701

[www.powersandsullivan.com](http://www.powersandsullivan.com)

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, 2017, 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.

A handwritten signature in black ink that reads "Renée Davis".

April 26, 2018

TOWN OF GEORGETOWN, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2017

**TABLE OF CONTENTS**

	<b>PAGE</b>
<b><i>Prior Year Comment</i></b> .....	1
Fixed Asset Capitalization Policy .....	2
<b><i>Informational Comments</i></b> .....	3
Future Government Accounting Standards Board (GASB) Statements for OPEB .....	4
Documentation of Internal Controls .....	5

## ***Prior Year Comment***

## **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 2018.

## ***Informational Comments***

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

### 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 is required to be implemented for fiscal year 2018 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 standard is GASB Statement #75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans.

GASB #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 fiscal year 2018.

### Recommendation

We recommend that management continue 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 2017).

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.