

***TOWN OF BARNSTABLE, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2017***

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To the Honorable Town Council  
Town of Barnstable, Massachusetts

In planning and performing our audit of the financial statements of the Town of Barnstable, 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 Barnstable, 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 Barnstable, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties.

*Powers & Sullivan LLC*

December 27, 2017

TOWN OF BARNSTABLE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2017

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## ***Prior Period Comments***

## **Fixed Assets**

### Prior Comment

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

For several years we have recommended that the Town work to develop and implement policies and procedures to insure the proper accounting for all capital assets and that they also maintain a complete and accurate fixed asset listing by both function and location. One method for identifying non-infrastructure fixed asset disposals would be to annually confirm their existence with each department. To account for infrastructure disposals, it is often more practical to implement a systematic and rational method to estimate the assets replaced each year.

Current Status – *Unresolved*. The Town has begun the process to remove some of their infrastructure assets that can be easily identified and are no longer in service. No disposals of non-infrastructure assets or other infrastructure assets have been recorded.

## **Management of Student Activity Funds**

### Prior Comment

Massachusetts General Law (MGL), Chapter 71, Section 47 requires that school districts maintain student activity funds in accordance with guidelines issued by the Department of Elementary and Secondary Education (DESE).

The DESE has published a comprehensive manual titled Agreed-Upon Procedures and Audit Guidelines – Student Activity Funds. Within each section of the manual is the DESE Policy Guidance, the MGL Requirement and DESE's explanation of what type of policies, internal controls and audit procedures should be implemented in order to be in compliance with the law.

These guidelines can be found on the DESE website at the following address:

<http://www.doe.mass.edu/finance/accounting>

One of the MGL requirements is that an annual audit of the student activities be completed. The DESE manual provides guidance on the acceptable methods and timing of the audit. The Town has not conducted an audit in the manner required by the MGL and the DESE in recent years.

We recommended that the Town implement policies and procedures to comply with the MGL audit requirement and the guidelines established by DESE.

Current Status – *Partially Resolved*. The Town has completed an internal review of the Barnstable High School student activity funds. The Town is still in the process of implementing policies and procedures to comply with the MGL audit requirement.

## Reconciliation of Budgeted Transfers

### Prior Comment

The Town recorded budgeted trust fund transfers on the general ledger and did not make the corresponding cash transfers between bank accounts in a timely manner. As a result, the specific trust fund bank accounts did not have accurate balances and were not earning the proper amount of interest during the year.

We recommended the Town implement procedures to reconcile budgeted transfers between the bank accounts and general ledger throughout the year to ensure that all budget transfers are properly recorded.

Current Status – *Resolved*. The Town has implemented a process to verify that budgeted transfers are recorded between bank accounts in a timely manner.

## Cash Reconciliations

### Prior Comment

One of the most effective controls to detect and correct errors in a timely manner is a timely process of reconciling bank balances to the cash book in the Treasurer's Office and then reconciling those reconciled Treasurer's cash book balances to the Town's general ledger. Performing these monthly reconciliations helps to ensure that errors are detected and corrected timely and that records are complete and accurate.

We noted the following areas where the Town's cash reconciliation process should be improved:

- The bank reconciliation for the vendor and payroll accounts report outstanding checks greater than three months old totaling over \$269,000 as reconciling items. In most instances, checks not cashed timely after the issue date indicates that the checks were either reissued, lost or are being held. As part of internal controls over cash disbursements and expenditures, the aging of outstanding checks should be monitored to ensure they are true outstanding checks. Two of these bank accounts were closed by the Town in a prior year. Outstanding checks in these accounts date back to 2002.
- The Town had several cashbook adjustments that although not significant, should be identified and corrected. These cashbook adjustments dated back to 2012.

We recommended the Treasurer's Office investigate the existing outstanding checks greater than three months old and take appropriate action to remove such checks from the outstanding check listings and place into tailings. We also recommend that procedures be implemented to investigate such outstanding checks on a monthly basis. We also recommend that the cashbook adjustments be investigated, corrected and removed from the cashbook reconciliations.

Current Status – *Resolved*. During fiscal year 2017 the Town has moved most outstanding checks older than three months to a tailings account. The Town has also corrected their cashbook to remove the insignificant adjustments that dated back to 2012.

## ***Informational Comments***

## **Future Government Accounting Standards Board 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 standards 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 evaluate these changes for financial statement reporting and disclosure purposes, and to formulate plans to meet with your actuaries and financial advisers and 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](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. In September 2016, the Town distributed an internal control guide to managers requesting it be updated with their current practices. The School is currently updating the MASBO template for their documentation of internal controls.