

TOWN OF DUXBURY, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2016

Powers & Sullivan, LLC

Certified Public Accountants



100 Quannapowitt Parkway

Suite 101

Wakefield, MA 01880

T. 781-914-1700

F. 781-914-1701

www.powersandsullivan.com

To the Honorable Board of Selectmen
Town of Duxbury, Massachusetts

In planning and performing our audit of the financial statements of the Town of Duxbury, 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 Duxbury, 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.

The Town's written responses to the comments identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Duxbury, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties.

Powers & Sullivan LLC

December 23, 2016

TOWN OF DUXBURY, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2016

TABLE OF CONTENTS

PAGE

<i>Prior Period Comments and Recommendations</i>	1
Collection of Ambulance Receivables	2
Reconciliation of Ambulance Receivables	2
Compensated Absences	3
Cash Reconciliations	3
Timeliness of Reconciliations	4
Chapter 90 Highway Reimbursement Requests	4
<i>Current Period Comments and Recommendations</i>	5
Reconciliation of Budgeted Transfers	6
Accounting for Construction in Process	6
<i>Informational Comments</i>	7
Future Government Accounting Standards Board (GASB) Statements for OPEB	8
Documentation of Internal Controls	9

Prior Period Comments and Recommendations

Collection of Ambulance Receivables

Prior Comment

As of June 30, 2015, the Town had \$147,000 in ambulance accounts receivable that had been outstanding for over three years and that were issued through a vendor that the Town is no longer using. The existence of large past-due receivables balance impedes cash flow and, as time passes, increases the risk that these receivables will be uncollectible. The Town has hired a collection agency in an effort to pursue collection on these balances.

We recommended management develop policies and procedures to address overdue ambulance receivables and to provide guidance for Town employees to ensure equitable treatment on all outstanding ambulance bills and to provide direction for future billings.

Current Status – Unresolved. As of June 30, 2016, the Town has \$146,000 in ambulance receivables that have been outstanding for over five years and were issued through a vendor that the Town no longer uses. The Town has made little progress in the collection of these balances and no process has been implemented to abate these older uncollectable balances.

Management's Response

The Town is in the process of revising our existing Ambulance Billing Policy to comport with the recommendation contained herein, namely to "address overdue ambulance receivables to provide guidance for Town employees to ensure equitable treatment on all outstanding ambulance bills and to provide direction for future billings." We anticipate adoption of this newly revised policy by the Board of Selectmen in the spring of 2017.

Reconciliation of Ambulance Receivables

Prior Comment

In the past, the ambulance accounts receivables were reconciled from the general ledger to the supporting detail only at the end of the fiscal year. Reconciling both the activity and the ending balance of the ambulance 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 the ambulance receivable 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 ambulance receivable be reconciled on a monthly basis. The timely reconciliation of the ambulance receivable 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.

Current Status – Resolved. The Town has implemented procedures to reconcile the detailed ambulance receivable records to the general ledger.

Compensated Absences

Prior Comment

The Town was in the process of converting to a system whereby the accrued liability for sick and vacation time would be centralized. Until this process was implemented, the liability was calculated based on spreadsheets received at the accounting office by various departments.

The Town did not have a system in place verifying the accuracy of the spreadsheets prepared by the departments. In prior years, we noted instances where the spreadsheets were inaccurate and the errors were not identified or corrected by the Town prior to the audit. We recommended the Town implement a system for verifying the accuracy of the accrued sick and vacation time liability.

Current Status – Resolved. The Town has implemented a new general ledger software package, which included a payroll component. Employee sick and vacation time is now being maintained in the payroll software system.

Cash Reconciliations

Prior Comment

The Town's lockbox and vendor bank accounts have not been reconciled since fiscal year 2014. As of June 30, 2015, the lockbox account had approximately \$573,000 in reconciling items due to the lack of a process to identify variances between the bank and book balance. The Town's main vendor account was only partly reconciled between the bank and the Treasurer's balance as the vendor account had approximately \$3,000 in reconciling items listed as "errors" dating back to 2011 that had not been corrected.

One of the Town's key internal control functions is the timely reconciliation of all bank accounts to the Treasurer's cashbook and to the general ledger. These reconciliations should be completed monthly to identify and correct discrepancies and to verify that deposits and withdrawals are properly occurring and that the balances in the Town's records are properly stated.

We recommended the Town implement procedures to reconcile all bank accounts on a monthly basis and to correct any errors that are identified.

Current Status – Unresolved. The Town has not yet reconciled the Town's lockbox account, which has an unreconciled variance of approximately \$340,000 as of June 30, 2016. Additionally, the Town's vendor and payroll account were not fully reconciled at year end as they had approximately \$30,500 and \$10,700, respectively, in variances between the bank balance and the Treasurer's balance as well as the general ledger. Furthermore, there have been no changes made to correct the outstanding reconciling items in the vendor account dating back to 2011 as noted in the prior comments.

Management's Response

The Town has been working on the reconciliation of the lockbox and vendor bank accounts and plans to complete this process during 2017.

Timeliness of Reconciliations

Prior Comment

On July 1, 2014, the Town implemented a new general ledger software system along with a new cash reconciliation module. On January 1, 2015, the Town implemented a new payroll system. With any software conversion, there is a learning period which may cause recording transactions and reconciling accounts to fall behind. As of the audit in October, the Town was one year behind in reconciling water and sewer receivables, nine months behind in reconciling real estate, personal property and other receivables and two months behind in posting receipts. Additionally, the Town did not provide the cash reconciliation for June until November 2015.

We recommended the Town implement procedures to reconcile accounts in a timely manner.

Current Status – Partially Resolved. The Town has implemented procedures to reconcile most of the accounts timely in the new system. However, adjustments of approximately \$40,000 were required to reconcile the vendor and payroll accounts at year end and the lock-box account has not been reconciled. We continue to recommend the Town reconcile these accounts on a monthly basis.

Management's Response

The Town has made significant progress toward reconciling these accounts monthly in 2017 and will continue to strive toward the monthly reconciliation of these accounts.

Chapter 90 Highway Reimbursement Requests

Prior Comment

At June 30, 2015, the Town had a cash deficit in the Chapter 90 grant account of approximately \$452,000, of which as of November 2015, the Town had not submitted for reimbursement of these expenditures from the state.

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.

We recommended 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.

Current Status – Resolved. The Town has implemented procedures to request funds on a timelier basis.

Current Period Comments and Recommendations

Reconciliation of Budgeted Transfers

Comment

The Town does not currently reconcile budgeted transfers to the actual transfers made. Consequently, budgeted transfers have been made several months after year end during the audit. The Town utilizes the revenue and appropriation budgeting functions in their automated accounting system; however, transfers are not currently monitored using these functions. This puts the Town at risk of not making all budgeted transfers as approved by Town meeting.

Recommendation

The accounting system is able to produce budget to actual reports that would easily identify budgeted transfers that have not been recorded. We recommend the Town implement procedures to use the budget to actual reports to verify that all budgeted transfers have been recorded.

Management's Response

The Accounting Department will work more diligently in its efforts to make sure that all transfers are recorded.

Accounting for Construction in Process

Comment

The Town is required to account for capital assets as non-depreciable construction in progress until the assets are placed in service. At this time, assets should be transferred to a depreciable asset category and the Town should begin depreciating them. The Town has not implemented a strong system to transfer assets from construction in process to a depreciable category when the assets have been placed in service. As a result, the Town has projects included in construction in process dating back to fiscal year 2013 that have been completed and have not been transferred to a depreciable category.

In order to maintain a complete and accurate fixed asset listing and to properly record depreciation expense, the Town must develop procedures to transfer completed projects from construction in progress once they are placed in service.

Recommendation

We recommend the Town develop and implement policies and procedures to ensure the proper accounting for all fixed assets by identifying completed projects and transferring them to a depreciable asset category.

Management's Response

The Town was previously transferring assets out of Construction in Progress to Capital Assets to be depreciated once all final payments on the contract had been made. This can occur well after the asset has been placed in service. Going forward, the Town will transfer assets once they have been placed into service.

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

The Duxbury School Department has begun the process of documenting their system of Internal Controls in compliance with this requirement. We recommend management complete this process by completing documentation of their internal control system using the COSO Internal Control Framework.