

TOWN OF TEWKSBURY, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2016



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To the Honorable Board of Selectmen
Town of Tewksbury, 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 Tewksbury, 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's 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 would not necessarily 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 other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning other 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 Tewksbury, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties.

October 21, 2016

TOWN OF TEWKSBURY, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2016

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Prior Year Comments

Develop Written Disaster Recovery Policies

Prior Comment

Over the past few years, Town and School management have begun the process of creating a written disaster recovery plan. We encourage this process to continue. The time to make contingency plans is before disaster strikes, so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing facilities.

A disaster recovery plan should include, but not be limited to, the following matters:

1. Location of, and access to, off-site storage.
2. A listing of all data files that would have to be obtained from the off-site storage location.
3. Identification of a backup location (name and telephone number) with similar or compatible equipment for emergency processing. (Management should make arrangements for such backup with another organization, a computer vendor, or a service center. The agreement should be in writing.)
4. Responsibilities of various personnel in an emergency.
5. Priority of critical applications and reporting requirements during the emergency period.

We noted that management has upgraded the MUNIS, Student Data Management, and general data applications, including the associated hardware and that backup procedures are being redesigned to assure offsite backup of data.

In addition to the improvements noted above, we continue to recommend that all Town disaster recovery procedures be documented. We also recommend that Items 3, 4 and 5 be addressed in the document.

Status – Partially Resolved. The Town has begun to develop a written Disaster Recovery Plan.

Fixed Asset Capitalization Policy

Prior Comment

The Town has implemented a fixed asset software system to assist in tracking fixed assets. However, the Town currently does not have a written policy for capitalizing fixed assets. Implementing a fixed asset capitalization policy will reduce uncertainty as to which purchases to capitalize. This will allow asset types to be consistently capitalized.

We recommended the Town implement a written capitalization policy and have it formally approved by the Board of Selectmen. We also recommend that the capitalization threshold be increased from \$10,000 to \$35,000.

Status – No significant change from the prior year. We continue to recommend that a written capitalization policy be documented.

Improve Controls over Performance Bond Deposits

Prior Comment

The Town does not have a process to formally reconcile the Treasurer's performance bond balances to the Town's general ledger balances. This would provide additional checks and balances and should simplify the year-end reconciliation process. The deposits are put in escrow accounts that must be returned to the original owners upon satisfactory completion of each individual project. A listing of performance bonds is maintained by the Treasurer but the fiscal 2014 activity was not recorded on the general ledger.

We recommended the performance bond deposits are reconciled between the Treasurer's book balances and the general ledger balances on a monthly basis.

Status – The Town has begun reconciling, but differences were still noted. We continue to recommend the performance bond deposits be reconciled between the Treasurer's book balances and the general ledger balances on a monthly basis.

Student Activity Cash Reconciliations

Prior Comment

The Student Activity checking account is reviewed and reconciled by the Principal on a monthly basis. While auditing the reconciliation, we noted that the reconciling item of outstanding checks did not match the provided outstanding check listing with a variance of approximately \$2,000. As part of the reconciliation process, it is imperative that variances be identified and corrected timely. Carrying unreconciled balances increases the Town's risk of inaccurate financial reporting.

We recommended the Town research reconciling items related to the Student Activity checking account and properly identify them.

Status – Partially resolved. The Town has opened new student activity checking accounts and is working on a process to have these accounts fully reconciled timely.

Centralization of Procurement Documentation

Comment

We noted supporting documentation for procurements, such as bids, quotes and contracts are being kept by individual departments instead of in a centralized location. This increases the risk that such documentation will not be available when needed for payment authorization, outside audits and other Town purposes. It also increases the risk that an obligation may be incurred without the proper bids or quotes and not be detected by Management.

We recommended that the Town develop a plan to centralize all procurement documentation in one location.

Status – No significant change from the prior year. We continue to recommend all procurement documentation is in one location.

Develop Procedures for Recording the Disposal of Infrastructure Assets

Comment

The Town does not have a process for reporting deletions of infrastructure assets once they have been replaced or reached the end of their useful life. As a result, the Town has not reported the deletion of any infrastructure assets since the implementation of GASB Statement #34. In compliance with GASB Statement #34, the Town is required to report all material capital assets at historical cost and to depreciate them over their useful lives. To accurately report capital assets, the Town must annually account for all capital asset additions and deletions. Since infrastructure assets cannot be specifically identified, the Town must establish a reasonable and consistent method for reporting deletions of infrastructure assets. This can be accomplished by establishing useful lives for each group of infrastructure assets consistent with the Town's system for maintaining each class of infrastructure (i.e. roads, sidewalks, water pipes, etc.)

We recommended the Town establish a policy for recording deletions of infrastructure assets as they reach the end of their useful lives and/or are replaced by new construction.

Status – No significant change from the prior year. We continue to recommend the Town establish a policy for recording deletions of infrastructure assets as they reach the end of their useful lives and/or are replaced by new construction.

Current Year Comments

Chapter 90 Highway Reimbursement Requests

Comment

At June 30, 2016, the Town had a cash deficit in the Chapter 90 grant account of approximately \$156,000. Numerous invoices had been paid in January and February 2016. These expenditures were not submitted to the state for reimbursement until June 2016.

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.

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

Tax Lien Receivable Reconciliation

Comment

We noted during the prior year that the Town does not have a reconciliation process in place for tax liens receivables. We recommended that formal reconciliation procedures between the Treasurer's office and the Town Accountant's office be implemented in order to ensure proper valuation of the accounts.

Recommendation

We recommend that the Town reconcile the activity in the tax liens receivable account on a monthly basis to ensure that the activity is properly accounted for.

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.