

TOWN OF SHARON, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2017

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Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

To the Board of Selectmen
Sharon, Massachusetts

In planning and performing our audit of the basic financial statements of the Town of Sharon, 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'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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Significant deficiencies are noted in the table of contents and comment headings.

During our audit, we also became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

The Town's written response to our comments and suggestions has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Audit Committee, Board of Selectmen and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Melanson Heath

December 12, 2017

1. Perform Cash Reconciliations in a Timely Manner (Significant Deficiency)

During fiscal year 2017, cash reconciliations were not formally completed by the Town in a timely manner. Performing bank reconciliations is a key function of the Town and should be performed and completed on a monthly basis and in a timely manner.

We recommend that cash reconciliations be completed on a monthly basis. We further recommend that the bank reconciliations be documented on a single form/spreadsheet that is approved by the Finance Director and Treasurer. This will result in improved control and documented oversight over the Town's bank balances, will help minimize the risk of errors or irregularities occurring and going undetected, and will improve the timeliness of completing the annual audit.

Town's Response:

As of January 25, the cash is reconciled through December 31, 2017. The recommendation to have a unified schedule approved by the Finance Director and Treasurer is being implemented.

2. Prepare for OMB's Uniform Guidance Requirements Over Procurement

As a result of OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (UG) there are new procurement rules over purchases made with federal grant funds, which differ in certain respects from Massachusetts procurement laws (MGL Ch. 30B, et al). The OMB has extended the grace period for implementation of the new procurement standards with a new effective date of July 1, 2018.

Under the new requirements, Federal award recipients must:

- Establish written policies and procedures for the following:
 - Procurement in compliance with new procurement standards
 - Standards of conduct covering conflicts of interest
 - Process for conducting proposal evaluations
- Maintain certain records to detail the history of procurement
- Implement oversight procedures to ensure contractors perform in accordance with terms.

Differences to MGL Ch. 30B include:

- Under the new rules, purchases of \$3,500 - \$10,000 must have evidence of obtaining/evaluating prices from more than one source; MGL Ch. 30B does not contain any requirements for purchases under \$10,000.

- There are no exemptions allowed under the new procurement standards; MGL includes exemptions for certain types of purchases such as Special Education services and supplies.
- Sole-source/no-competition purchases are allowed only in certain situations and are not dependent on the purchase amount; MGL sole-source requirements are less specific.

We recommend the Town review the new requirements and modify the current procurement policy to ensure compliance with Uniform Guidance.

Town's Response:

Most of the federal grants are on the school side and cover mostly payrolls. The Town Administration has reviewed the federal requirements. The Finance Director and the School Business Manager will work together to develop and document policy regarding the procurements under federal grants.

3. Prepare to Implement GASB 75 for OPEB

Beginning in fiscal year 2018, the Town will be required to implement the Governmental Accounting Standards Board (GASB) Statement 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The GASB has taken the position that OPEB is a form of compensation and the liability/expense should be recognized while the employee provides service to the government. GASB Statement 75 replaces Statements 45, and requires the full net OPEB liability and related expenses to be presented on the government's accrual basis financial statements. Previously, the liability was recorded incrementally, generally increasing based on the degree to which a government funded the annual required contribution. It is expected that the implementation of these accounting standards could have a material impact on the Town's financial statements, including the recording of a larger net OPEB liability and substantial new disclosures.

We recommend the Town begin planning for the implementation of GASB 75, which includes gaining an understanding of the new requirements, educating applicable financial statement users, and ensuring that actuarial valuations are performed in a timely manner and in compliance with the new requirements. Therefore, it is critical that the first GASB 75 actuarial valuation be completed in a timely manner, preferably with a July 1, 2017 measurement date. It will be also important for the Town to maintain an adequate system of documentation to support the employee census data information provided to the actuary, since this information will now be subject to annual audit testing.

Town's Response:

The Town administration is fully aware of these new standards. The latest OPEB valuation reports have already incorporated GASB 75 standards.

4. Develop a More Formal Risk Assessment Process

The Town informally performs its own risk assessment for possible fraud or material misstatement through various policies and procedures and regular reviews of trends in the financial statements. Risk assessment is a management function designed to identify where an organization may be vulnerable to errors and/or irregularities. A complete risk assessment process involves a written description of risk areas identified by those charged with governance (management and elected officials) and a description of how the organization intends to respond to the risks.

We recommend that the Town implement a more formal risk assessment process that includes internal audits and written identification of areas where potential fraud or material misstatements to the basic financial statements may occur. Regular department head meetings could be used as a starting point for documenting risk assessment discussions and assessments.

In evaluating risk areas, particular consideration should be given to situations where a single employee is responsible for performing most or all accounting responsibilities, since this could create opportunities for fraud to occur and go undetected. The Town should evaluate major transactional cycles in all applicable departments to ensure an adequate segregation of duties exists. If staffing levels do not permit an adequate segregation of duties, the Town should provide additional oversight, which should include review and documented sign-off of the key accounting records.

We also recommend the Town establish a formal employee fraud policy to provide staff with guidance in the event they observe or suspect fraud in the work place.

Town's Response:

The Town administration is very much aware of the potential for any frauds. The Town will develop a formal Fraud Risk Assessment policy and involve all department heads in the exercise.

5. Establish Fiscal Policy Goals

The Town currently does not have formal policies establishing financial guideline levels and spending criteria for the general fund, enterprise funds, and stabilization fund. As a result, there is a risk that fund balance levels could fall below the levels recommended by financial advisors, thereby risking a reduction in the Town's bond rating.

We recommend the Town establish long-term fiscal policy goals, including issues such as established thresholds for general fund unassigned fund balance, free cash, general stabilization, and enterprise fund unassigned fund balance levels, as well as plans to stabilize future tax and utility rates. This will help ensure

adequate resources exist for funding unexpected costs, minimize future interest costs through continued strong bond ratings, and provide resources to deal with the effects of future downturns in the regional economy.

Town's Response:

The Town administration is very keen to protect Town's bond rating. The Town also follows a very rigorous budgeting process to ensure the incremental expenditures stay within the incremental revenues and the funds are allocated on a rational basis by the Town's Priority Committee comprising the Board of Selectmen, FINCOM, and the School Committee.

The FINCOM and the BOS have approved guidelines on ceiling on non-exempt debt service at 6% of the ensuing year's estimated appropriations, initiated a practice of funding increasing annual capital purchases within in the annual appropriations rather than issuance of new debt, and set a goal of increasing undesignated general fund balance and stabilization funds at 5-8% of the overall budget.

The Town will work on formalizing these policies.

6. Review Employee Access to Accounting Systems

The Town has undergone turnover in various financial positions over the past few years. During our testing, we found there is no formal evaluation performed of employee access to various automated systems. This increases the risk that unauthorized transactions could take place.

We recommend general ledger access be assessed for all employees to ensure that the proper permission levels to the various automated functions are correct. This will provide improved control over the Town's accounting systems.

Town's Response:

The Finance and IT Directors will work to review access to MUNIS.