

TOWN OF SHARON, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2018

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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, 2018, 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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, 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 7, 2018

1. Prepare for GASB Statements 84 and 87

GASB Statements 84 and 87 will apply to the Town in fiscal years 2020 and 2021 respectively. Statement 84 addresses Fiduciary Activities and may require change in how the Town accounts and reports these activities. Statement 87 addresses leases and significantly changes the accounting standards related to them, including requiring various operating leases to be reported on the Town's balance sheets.

We recommend that the Finance Department prepare for these accounting changes by ensuring all other Departments are aware of the pending changes. The Finance Department should also consider updating its lease accounting policy to ensure all material leases are properly identified.

Town's Response:

The Town administration is aware of these new standards and will make every effort to follow them.

2. 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 always cognizant of the fraud potential in its operations. There are sufficient internal controls in place already, however, they are not fully documented. The Town will develop a formal Fraud Risk Assessment policy and will involve all department heads in the process.

3. 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 net position 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 and the last two ratings by Moody's and S&P reflect their efforts.

The Town 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 unassigned general fund balance and stabilization funds at 5-8% of the overall budget.

The Town will work on formalizing these policies.