

***TOWN OF BRAINTREE, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2012***



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To the Honorable Mayor and the Town Council  
Town of Braintree, Massachusetts

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Braintree, Massachusetts for the fiscal year ended June 30, 2012, and have issued our report thereon dated December 12, 2012. Our opinions on the financial statements and this report, insofar as they relate to the Braintree Electric Light Department, are based solely on the report of other auditors. 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 Braintree, Massachusetts (Town) as of and for the fiscal year ended June 30, 2012, 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 opinion on the Town's 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 was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have 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 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. We consider the following deficiencies in the Town's internal control to be significant deficiencies:

The Treasurer's office has been operating for several years without a full staff. Because of the staffing issues cash receipts have not been posted in a timely manner and monthly reconciliations of cash and accounts receivable have also not been done on a timely basis.

During our audit we also became aware of several matters that are 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 *significant deficiencies and other matters* identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

*Powers + Juliani, LLC*

December 12, 2012

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**TABLE OF CONTENTS**

**PAGE**

<b><i>OTHER MATTERS PREVIOUSLY REPORTED</i></b> .....	<b>1</b>
Treasury Operations .....	2
Internal Control Policies and Procedures Manuals .....	2
Identification and Reporting of Federal Awards .....	3
<b><i>CURRENT YEAR COMMENTS</i></b> .....	<b>4</b>
Accounting for Trust Funds .....	5
Budget Reconciliation and Role of the Town Accountant .....	5
Informational Comment – Future GASB Statements for Pensions and OPEB .....	6

# **OTHER MATTERS PREVIOUSLY REPORTED**

## ***SIGNIFICANT DEFICIENCY***

### **TREASURY OPERATIONS**

#### Previous Comment

Since fiscal year 2009 and continuing through fiscal year 2012, the Treasurer's office has been operating with less than a full staff. The Treasurer's position has turned over 3 times and certain tasks have not been completed on a consistent basis including the timely postings of cash receipts to the general ledger and monthly reconciliations of cash and accounts receivables to the general ledger balances and to the Accountant's balances. The department has retained the help of a part-time outside consultant to assist in getting the cash postings and bank reconciliations brought up-to-date but this situation continues to exist.

#### Continuing Recommendation

In order to strengthen internal controls over financial reporting and to safeguard the Town's assets we recommend that management should take whatever actions may be necessary to ensure that the day-to-day activities of the Treasury Department are being completed on a timely basis and that detailed reconciliations with the general ledger balances and with other departments are occurring on a routine basis as prescribed by management.

#### Management's Response/Current Status

The Town has hired an experienced Treasurer/Collector who took office the beginning of July 2010. The position has been filled again with another experienced individual who started in the fall of 2012. Continued improvements are being made to the cash receipts and reporting system. We have been working with the software company on a new treasurer receipts software package that will improve the efficiency of the cash receipts process. Significant improvements have been made in the tax collector's accounts receivables procedures including the direct input of payments over the counter in to the accounts receivable software and more timely reconciliation of the detailed receivables to the general ledger. The goal for FY2013 is to have the detail of cash and accounts receivable reconciled to the ledger on a monthly basis.

## ***OTHER MATTERS***

### **INTERNAL CONTROL POLICIES AND PROCEDURES MANUAL**

#### Continuing Comment

We noted that most departments do not maintain a formal internal control policy and procedures manual documenting day-to-day processing and controls. Recently the Town has experienced turnover in several departments while at the same time significant operational changes are being implemented including a new Town-wide general ledger software conversion and within the public works department and in the water and sewer fund. The Town is at risk if critical tasks cannot be completed due to extended or unforeseen absences and for undocumented operational changes. A formal internal control policy and procedures manual would assist each department head with training, documenting, and assuring the continuity of operational policies and procedures that have been approved by management.

### Continuing Recommendation

We recommend that each department head develop an internal control policy and procedures manual that includes proper reviews and approvals by management. The document should be written with sufficient detail to allow a new employee the ability to complete the task by reviewing its respective directions. This document should be updated for any system or policy changes. A master manual of all procedures should be maintained and stored in a secure location. In addition, all department heads should be familiar with all policies and procedures within their office and be able to complete all necessary tasks in order to sufficiently train employees.

### Management's Response

We agree with the comment as this has been demonstrated by the turnover in key staff positions in certain departments. Management will address this over the next fiscal year.

## **IDENTIFICATION AND REPORTING OF FEDERAL AWARDS**

### Continuing Comment

The Town is required to prepare the Schedule of Expenditures of Federal Awards (SEFA) each year as part of the Single Audit requirements. The SEFA reports the total federal awards expended for the fiscal year being audited, by program name and Catalog of Federal Domestic Assistance Number (CFDA). The SEFA must also indicate if the funds were received directly from a federal agency, or if applicable, the pass-through entity's name. The Town expends approximately \$4.3 million in federal funds each year from a variety of programs. The Town does not have a strong system in place to readily provide the necessary information to complete the Schedule of Expenditures of Federal Awards.

This schedule is currently populated based on information gathered from several websites and from review of the expenditures reported in the general ledger. As a result, there is a risk that the Town could unintentionally misclassify a state award, or omit a federal award from being reported on the SEFA.

### Continuing Recommendation

We recommend that the Town develops policies and procedures that will ensure that all federal awards are identified as awarded, and that all of the pertinent information is provided to the Town Accountant prior to accounts being setup on the general ledger to account for the programs. A specific sequence of fund numbers should be designated on the Town's general ledger to separately account for federal and state awards. This would provide greater efficiency in the preparation of the report and reduce the risk of error in the reporting of federal awards expended.

### Management's Response

We agree and will schedule a meeting with our School Department (our largest recipient of Federal funds) and develop policies and procedures to identify and classify Federal funds received and expended. We will see if it is possible to record the CFDA number in the grant title field. Once we have developed these policies and procedures with the School Department we will be implementing them in all departments receiving Federal funds.

# **CURRENT YEAR COMMENTS**

## **ACCOUNTING FOR TRUST FUNDS**

### Comment

The Town is not consistently classifying trust fund activity in the general ledger. There were several instances where receipts were posted to investment income but should have been classified as transfers in or as contributions. As a result, there were audit adjustments made as part of the audit to properly classify these transactions. We also noted several instances where bank deposits were not posted to the general ledger side at all.

### Recommendation

We recommend that the Town make timely entries into their general ledger to account for the trust fund deposits and reconcile these accounts on a monthly basis.

### Management's Response

We agree with this recommendation and have implemented procedures beginning with the installation of the new accounting system as of July 1, 2012 to address these matters as part of our normal day-to-day activities.

## **BUDGET RECONCILIATION AND ROLE OF THE TOWN ACCOUNTANT**

### Comment

Every year, as required by Massachusetts General Law, the Town adopts a balanced budget upon approval by Town Council. Changes or transfers made subsequent to the approval of this annual budget occur frequently throughout the year. The Town Accountant enters the original approved budget into their general ledger software for the beginning of the fiscal year along with any council orders made throughout the year. However, the Town does not maintain any type of crosswalk to prove the amount recording in the general ledger to the amounts voted by Town Council. The Town Accountant should have a more significant role in monitoring the budget and working with the departments to compare budgeted to actual results. This comparison should be done monthly so that the budget can be properly monitored.

### Recommendation

We recommend the Town Accountant have a more significant role in managing the budget process and that management should improve procedures for monitoring the budget with all concerned parties throughout the year.

### Management's Response

The Town Auditor has developed a document that the Town Accountant can modify slightly and the modified form can be used to tie out the general ledger totals and detail to the Town Council actions on a monthly basis.

# ***Informational Comment***

## **FUTURE GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS FOR PENSIONS AND OPEB**

### Comment

The GASB has issued new pronouncements that will significantly affect the accounting and reporting requirements for Pensions and Other Postemployment Benefits (OPEB). These new standards will start to phase in during fiscal year 2013 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 #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015.

The GASB is expected to issue additional standards following #67 & #68 for Pensions, which will similarly affect accounting and financial reporting for OPEB Plans. The GASB is encouraging earlier application of these standards.

To briefly summarize these new standards –

- GASB #63 and GASB #65 will require reporting each of the financial position elements in a separate section in the statements of financial position. These elements are Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position; where assets + deferred inflows – liabilities – deferred inflows = net position. These new requirements will affect certain aspects of the financial statements currently and they will pave the way for the new reporting requirements of the new Pension and OPEB standards.
- GASB #67 and #68 will substantially change the reporting for pension liabilities and expenses. Changes in pension liability will be immediately recognized as pension 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 pension liability (asset) determined annually as of the fiscal year end. Net pension liability (asset) equals the total pension liability for the plan net of the plan net position. Pension liability is the actuarial present value of projected benefits attributed to past service, and plan net position is the accumulated plan assets net of any financial statement liabilities of the plan.

The Town should expect to record significant pension and 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 want to consider how and when this information should be communicated to your constituents and other financial statement users.

### Management's Response

Management will begin to study and evaluate the impact of GASB's new pronouncement to the financial statements.