

TOWN OF BRAINTREE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2013



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To the Honorable Mayor and the Town Council
Town of Braintree, 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 Braintree, Massachusetts as of and for the fiscal year ended June 30, 2013, 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 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. 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 these other matters.

The Town of Braintree'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.

This communication is intended solely for the information and use of management of the Town of Braintree, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties.

Powers & Sullivan, LLC

December 17, 2013

TOWN OF BRAINTREE, MASSACHUSETTS

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OTHER MATTERS PREVIOUSLY REPORTED

SIGNIFICANT DEFICIENCY – BEING CORRECTED

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.

Current Status

The Town has hired an experienced Treasurer/Collector who started in the fall of 2012. Cash and accounts receivable reconciliations have been performed on a monthly basis since that time. The Treasurer and the Town Accountant have been working closely together installing new accounting and financial reporting software throughout the Town. Continued improvements are being made to the cash receipts and reporting system, along with monthly reconciliations of cash and receivable balances.

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

We have completed the software upgrades on the 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 Treasurer and Town Accountant are reconciling the detailed records to the general ledger on a regular basis as of the end of the 2013 fiscal year.

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 has begun to address these matters now that the new systems have been installed.

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.

BUDGET RECONCILIATION AND ROLE OF THE TOWN ACCOUNTANT

Continuing 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 Accountant 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.

Continuing 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. The Town Accountant will begin to maintain this information for fiscal year 2014 and going forward.

Informational Comment

Future Government Accounting Standards Board (GASB) Statements for Pensions and OPEB

Current 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 2014 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 #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 2015.
- 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 #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 outflows – liabilities – deferred inflows = net position. This new requirement 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 also want to consider how and when this information should be communicated to your constituents and other financial statement users.

Management's Response

Management is in the process of working with our actuaries and other outside advisors so that we will be ready to implement these new standards on their effective dates.

CURRENT YEAR COMMENTS

TIMELINESS OF THE ANNUAL AUDIT AND DEVELOPMENT OF A YEAR-END CLOSING SCHEDULE

Comment

This year's closing process was delayed because certain procedures were not performed on time. The results were delays in producing closing entries, final trial balances, schedules, reconciliations, account analyzes, and other financial reports needed by management and the auditors. We continued to receive late journal entries and revisions to previously provided trial balances well into November 2013.

We believe that the year-end closing could proceed more quickly by developing a closing schedule that indicates who will perform each procedure and when completion of each procedure is due and accomplished. The timing of specific procedures could be coordinated with the timing of management's or the auditor's need for the information. The due dates could be monitored to determine that they are being met.

Recommendation

We understand that the closing process for the Town is somewhat complicated and dependent on gathering information from a number of sources. In addition, we recognize that the accounting staff responsible for the close is limited in number and that this limited staff must continue to complete on-going daily tasks without being able to completely focus on the annual close and the audit. We do however recommend that management should develop and monitor a year-end closing schedule that will ensure a more timely and complete close. We recommend that the plan should work backwards from when management expects its annual audited financial statements to be available for review.

Management's Response

We agree with the comment. We will develop a year-end closing schedule to meet our accelerated time frame for completing the audit. The timeframe has been accelerated to meet the December 31st deadline for the Town submitting our CAFR to the GFOA's by their December 31st deadline. In the last year we have hired two key employees in the finance department and also we have changed the Town's general ledger software system on July 1, 2012, converted the Town's weekly payroll system January 1, 2013 and brought the school department onto the Town's accounting system as of July 1, 2013. These conversions went smoothly however in doing so it required considerable staff time that delayed the close. We are confident that with the new staff, new software, and improvements to the systems we as a team working together will be able to meet our schedule for the year upcoming year-end close.