

TOWN OF BRAINTREE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2014



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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 Town of Braintree, Massachusetts as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Braintree, Massachusetts' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 was not designed to 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 several matters that represent 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 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.

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 Braintree, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties

Powers & Sullivan, LLC

December 15, 2014

TOWN OF BRAINTREE, MASSACHUSETTS

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JUNE 30, 2014

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OTHER MATTERS PREVIOUSLY REPORTED

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 several million dollars 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

The Town has made some progress in this by adding the CFDA numbers to existing grants already recorded in the general ledger.

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.

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 2015 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 #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 has also issued 2 exposure drafts 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 #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.
- Similar standards will be issued related to unfunded OPEB liabilities.

As a result of the new standards, 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

CENTRALIZATION OF CHAPTER 30B PROCURMENT COMPLIANCE DOCUMENTATION

Comment

All procurement related documents, such as bids, quotes and contracts are currently being maintained 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.

Recommendation

We recommend that the Town develop policies and implement procedures requiring all procurement related documentation to be kept on file in a centralized location. This will enable Management to provide assurance that all bills being paid have the necessary bids, quotations and contracts to comply with state and local procurement laws and regulations.

Management's Response

We agree with the comment. Several departments in this year's Capital Plan have requested an electronic document file storage and retrieval system. A committee has been established to look into options and gather information to present to the Town a unified and comprehensive electronic document file storage and retrieval system rather than a piece meal department by department fix. We will also charge the committee with looking into a central contract and procurement file area available to all interested parties.

PURCHASE ORDER USAGE

Comment

The Town's current operating procedures do not require and do not consistently apply the use of purchase orders for the acquisition of goods and services. We believe that the use of purchase orders would benefit the Town by providing greater control over procurement and expenditures, and may provide more accurate and useful financial information. Purchase orders can be reviewed to ensure allowability of costs, compliance with legal requirements, proper coding, and available funds in appropriations prior to authorization of a transaction.

The Town recently implemented a new accounting system that has a purchase order module encompassed within it. The Town could utilize this module to centralize the purchasing process and provide management with better information to help manage procurement and budgetary processes. This would help the Finance Director, Town Accountant and Department Heads to better manage appropriations, cash flows, and other related financial information.

Recommendation

We recommend that the Town consider adding the use of purchase orders consistently to its current procedures and implement a corresponding purchase order policy.

Management's Response

We are aware of the new purchase order module but have not yet initiated policies and procedures for its implementation. We plan to contact other communities who currently utilize this to determine how this will best fit our needs.