

TOWN OF BRAINTREE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2017



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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, 2017, 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.

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.

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.

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.

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 27, 2017

TOWN OF BRAINTREE, MASSACHUSETTS

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Current Year Comment

TIMELINESS OF RECORDING BUDGETED TRANSFERS

Comment

During our 2017 audit, and after the Town's books were closed for the fiscal year, we became aware of voted transfer that was not recorded on a timely basis. Town Council voted on April 25, 2017, to transfer \$1,154,689 from the Town's stabilization fund to the general fund. The Town recorded the transfer out of the stabilization fund but failed to record the transfer into the general fund. Upon further review, the Town wrote a check to itself for the transfer which was not deposited until the end of August, which if left unadjusted would have resulted in this being recorded in the subsequent fiscal year.

Recommendation

We recommend the Town implement procedures to verify that all budgeted transfers have been recorded in the general ledger on a timely basis.

Management's Response

We have changed procedures so that all finance related department heads are notified of matters sent down to Town Council for action. We also notify them of the passage of these motions when approved by the Council. We believe that these changes will prevent this issue from occurring again.

Informational Comments

DOCUMENTATION OF INTERNAL CONTROLS

Comment

In December 2013, the U.S. Office of Management and Budget (OMB) issued *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) in an effort to (1) streamline guidance for federal awards while easing the administrative burden and (2) to strengthen oversight over the expenditure of federal funds and to reduce the risks of waste, fraud and abuse.

The Uniform Guidance supersedes and streamlines requirements from eight different federal grant circulars (including OMB Circular A-133) into one set of guidance. Local governments are required to implement the new administrative requirements and cost principles for all new federal awards and to additional funding to existing awards made after December 26, 2014 (fiscal year 2016).

In conformance with Uniform Guidance, the non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States (the Green Book) and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The COSO internal control framework is generally accepted as a best practice within the industry including the best practices prescribed by the Government Finance Officers Association (GFOA). COSO is a joint initiative of 5 private sector organizations dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence. The original COSO framework was published in 1992 and has been revised several times for changes in operations, technology, and audit risk. The most recent updates to the COSO Internal Control - Integrated Framework were issued in 2013 and are available at www.coso.org.

Management is responsible for internal control and to see that the entity is doing what needs to be done to meet its objectives. Governments have limited resources and constraints on how much can be spent on designing, implementing, and conducting systems of internal control. The COSO Framework can help management consider alternative approaches and decide what action it needs to take to meet its objectives. Depending on circumstances, these approaches and decisions can contribute to efficiencies in the design, implementation, and conduct of internal control. With the COSO Framework, management can more successfully diagnose issues and assert effectiveness regarding their internal controls and, for external financial reporting, help avoid material weaknesses or significant deficiencies.

The COSO internal control framework incorporates 5 major components of internal control, which are supported by 17 principles of internal control as follows:

1. CONTROL ENVIRONMENT
 - 1) Demonstrates commitment to integrity and ethical values
 - 2) Exercises oversight responsibility
 - 3) Establishes structure, authority, and responsibility
 - 4) Demonstrates commitment to competence
 - 5) Enforces accountability
2. RISK ASSESSMENT
 - 6) Specifies suitable objectives
 - 7) Identifies and analyzes risk

- 8) Assesses fraud risk
- 9) Identifies and analyzes significant change
- 3. CONTROL ACTIVITIES
 - 10) Selects and develops control activities
 - 11) Selects and develops general controls over technology
 - 12) Deploys through policies and procedures
- 4. INFORMATION & COMMUNICATION
 - 13) Uses relevant information
 - 14) Communicates internally
 - 15) Communicates externally
- 5. MONITORING
 - 16) Conducts ongoing and/or separate evaluations
 - 17) Evaluates and communicates deficiencies

Management should evaluate and assess the government's internal control system to determine whether; each of the five essential elements of a comprehensive framework of internal control is present throughout the organization; whether each element addresses all of the associated principles; and whether all five elements effectively function together.

Recommendation

We recommend management follow the best practice for establishing and documenting their internal control system using the COSO Internal Control Framework.

Management's Response

Management agrees with the recommendations and will ensure these controls are implemented and monitored.

FUTURE GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS FOR OPEB

Comment

The GASB has issued new pronouncements that will significantly affect the accounting and reporting requirements for Other Postemployment Benefits (OPEB). These new standards started to phase in during fiscal year 2017 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 #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which was implemented in 2017.

This accounting standard primarily deals with the accounting and financial reporting of the OPEB Plan itself. The Town's financial statements, the related notes and the required supplementary information were all changed in 2017 to provide additional information on the Other Postemployment Benefit Trust Fund.

- The GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018.

This accounting standard primarily deals with the Town's OPEB liability. In 2018, the full OPEB liability will be required to be recorded on the financial statements rather than just disclosed in the notes to the financial statements.

Recommendation

We recommend that management continue 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 agrees with the recommendation and is working with the Town's actuaries to be in compliance with these requirements.