

TOWN OF EAST BRIDGEWATER, MASSACHUSETTS

**SUGGESTIONS FOR IMPROVEMENT IN ACCOUNTING
PROCEDURES AND INTERNAL CONTROL**

JUNE 30, 2019

To the Honorable Board of Selectmen
Town of East Bridgewater, Massachusetts

In planning and performing our audit of the financial statements of the Town of East Bridgewater, Massachusetts (the Town) as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

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. 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in the internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We are also submitting for your consideration comments and recommendations which are not considered to be significant deficiencies but are intended to improve operations and internal accounting control.

The comments and recommendations presented herewith in are intended to improve the system of internal accounting control or result in other operating efficiencies. This communication is critical by nature because its purpose is to identify issues and areas where improvements can be made. Accordingly, we have not commented on positive attributes of the Town's financial management systems. It is also important to understand that it is generally not practical to achieve ideal internal control in the complex governmental accounting environment and we recognize that practical considerations are an important factor in changing administrative practices and internal control. The Town should weigh the advantages and disadvantages of the suggested changes over the present practices and procedures.

We would like to acknowledge the courtesy and assistance extended to us by Town personnel during our audit. This communication is intended solely for the information and use of Town management and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Lynch Marini & Associates Inc

Norwell, Massachusetts
July 28, 2020

PRIOR YEAR COMMENTS

A part of the audit of the Town's financial statements for the year ended June 30, 2018, we had several comments and suggestions in our report dated January 16, 2019. The current status of such comments are noted below, as applicable.

Evaluation of the internal control environment & risk assessments

Accounting and regulatory standards (OMB) and the Government Accounting Office (GAO) have reaffirmed the importance of increased documented policies and procedures surrounding financial practices, internal controls and formalized documentation of monitoring thereof. An effective internal control environment requires formalized policies and procedures which are continually being evaluated for effectiveness of their design and operation and updated accordingly. Several of the key components of any internal control environment are the regular communication of established policies and procedures and the monitoring thereof. This assists in assuring that employees and management, while performing assigned duties/functions "prevent or detect and correct misstatements on a timely basis". Established procedures should ensure that misstatements, errors and corrections are formally documented, communicated and or approved through appropriate supervisory personnel. Furthermore, clearly defined policies and procedures assist during periods of transition in personnel.

While it may often not be practical to achieve ideal internal control in the governmental accounting environment, (especially often with limited personnel) it is important to realize the purpose and function of such an internal control system is no different than any other entity. The results still affect decision making (economic, social, etc.) of the government and its' accountability. Often clearly documented internal control policies and procedures are more important in smaller entities in which segregation of duties and more extensive "checks and balances" may not be able to be implemented. Practical considerations and the advantages and disadvantages (cost/benefit) of the design of the internal control environment must be assessed and accepted by both management and those charged with governance. As indicated above, the Town is currently in the process of developing a centralized manual of financial procedures. In our opinion, a formalized, routine "risk assessment" program should also be included within adopted procedures. Such a program (inclusive of brainstorming sessions) provide an essential component in the overall internal control environment and in addressing financial, operational and compliance issues and policies in a proactive manner.

Develop Fraud Policy

In conjunction with formalized risk assessments and established policies and procedures, we recommend the Town develop a fraud policy. While fraud is often associated solely with theft, entities must be conscious of the fact that categorization of fraud is not absolute. Fraud generally involves intent by a perpetrator and reliance by the victim. Therefore, ultimately any final determination of a fraudulent act is for legal "trier of fact". However, it is important that management of all entities realize that in instances of suspect actions, the lack of formalized policies and procedures can be detrimental in the resolution thereof (i.e. terminations, restitutions, etc.).

Development of such policies should include, but not limited to such items as: defining acts considered fraudulent, communication of established policies/procedures (inclusive of fraud policies) to parties (personnel, officials, vendors, etc.), mechanisms for reporting (i.e. hotlines, etc.). We recommend the Town consult legal counsel as deemed necessary.

Enhanced Controls Over School Department Cash Receipts

As a result of recommendations in our previous audit, the School Department enhanced certain internal controls over cash receipts and is working to enhance internal controls over other cash receipts. We continue to recommend management implement appropriate internal controls over all school cash receipts, particularly those areas with high volume/activity, and implement procedures which would prevent, detect and correct misstatements on a timely basis, as well as ensure compliance with Massachusetts' General Laws, including School Rental Revolving Account close out of fund balance to General Fund, as applicable.

Capitalization Policy

In the prior year review of capital assets, we noted that there is no formal capitalization threshold. The Uniform Massachusetts Account System defines a capital asset as “generally having a useful life of greater than 1 year and a value of greater than \$5,000”.

We continue to recommend the Town formally adopt a capitalization policy.

Reconciliation of Student Activity Accounts

In prior years, we recommended student activity accounts be reconciled and procedures followed, as outlined in the Student Activity Funds Guidelines, issued by the Department of Elementary and Secondary Education. This recommendation is still applicable.

Increasing Fidelity Bond Coverage

In prior years, we noted the Assistant Treasurer did not maintain an adequate fidelity bond amount in accordance with Massachusetts General Laws (M.G.L.) and recommended fidelity bonds be maintained in compliance with M.G.L. This recommendation is still applicable.

Unsecured Bank Deposits

During our prior audit, we noted the Town was not in compliance with its investment policy relating to unsecured deposits. Although the Town entered into a collateralization agreement with one bank during fiscal year 2019; the Town continued to be non-compliant at June 30, 2019, due to unsecured bank deposits at another bank. We recommend the Town review and update the investment policy and continue to follow approved policies.

CURRENT YEAR COMMENTS

As part of our audit of the Town’s financial statements for the year ended June 30, 2019, we have the following comments and recommendations:

Cash Reconciliations

As noted in our report in accordance with *Government Auditing Standards*, we identified a significant deficiency in internal controls relating to the timing of cash reconciliations. During fiscal year 2019, the office of the Treasurer was vacant for a time period; accordingly, cash reconciliations were not completed timely during fiscal year 2019. As of June 30, 2019, there was an immaterial variance in cash balances between the Town Accountant and Treasurer; however, procedures have been implemented to isolate this variance in the current fiscal year.

Perform Tailing Procedures

In accordance with Massachusetts General Laws (M.G.L.), municipalities are required to follow certain procedures related to unclaimed or abandoned funds (outstanding checks). We recommend the Town perform the mandatory tailing procedures through the adoption of M.G.L. Chapter 200A, Section 9A.

Solid Waste Fund

The Town previously established the Solid Waste Fund as an Enterprise Fund pursuant to Massachusetts’ General Laws; accordingly, the activity of the Solid Waste Fund is reported as a Business-type activity in the Town’s financial statement.

The Town’s fiscal year 2019 financial statements reflect a \$280,000 (\$80,000 relating to fiscal year 2019 and \$200,000 relating to fiscal year 2020, as authorized by the fiscal year 2020 Town meeting) operating subsidy transfer from the General Fund to the Solid Waste Fund.

We recommend that management evaluate the ongoing viability of the Solid Waste Fund being operated as an Enterprise Fund.

Other Informational Comments:

Other Postemployment Benefits:

At June 30, 2019, the Town reported a net OPEB liability of \$59.1 million. The total OPEB liability was calculated using a discount rate of 3.0%, since the fiduciary net position included in the OPEB Trust Fund was projected to not be available to make all projected benefit payments for current and inactive employees. The discount rate used to measure the total OPEB liability has a significant effect on the net OPEB liability. For example, a one-percentage-point increase in the discount rate would decrease the reported liability by approximately \$8.5 million at June 30, 2019.

The Town's OPEB Trust Fund at June 30, 2019 had a net position of \$70,000. We recommend the Town continue to work with its independent actuary to formally adopt a funding schedule that would be considered sufficient to increase the discount rate used in future valuations.

Future GASB Pronouncements:

The GASB issued Statement #84, *Fiduciary Activities*, which is required to be implemented in fiscal year 2020. The pronouncement establishes criteria for identifying fiduciary activities and its objective is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

The GASB issued Statement #87, *Leases*, which is required to be implemented in fiscal year 2021. This pronouncement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Accordingly, all lease obligations are expected to be reported on the financial statements.

The GASB issued Statement #89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which is required to be implemented in fiscal year 2020. This pronouncement will improve financial reporting by provided users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period.

The GASB issued Statement #90, *Majority Equity Interests – an amendment of GAST Statements No. 14 and No. 61*, which is required to be implemented in fiscal year 2020. This pronouncement improves the consistency and comparability of reporting a government's majority interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

The GASB issued Statement #91, *Conduit Debt Obligations*, which is required to be implemented in fiscal year 2022. This pronouncement improves the financial reporting by providing a single method of reporting conduit debt obligations by issuers and eliminating diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

The GASB issued Statement #92, *Omnibus 2020*, which is generally required to be implemented in fiscal year 2021 or thereafter. This pronouncement addresses a variety of topics and includes specific provisions of previously issued pronouncements.

The GASB issued Statement #93, *Replacement of Interbank Offered Rates*, which is generally required to be implemented in fiscal year 2021. This pronouncement addresses the accounting and reporting implications resulting from interbank offered rates (IBOR).

The GASB issued Statement #94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which is generally required to be implemented in fiscal year 2023. This pronouncement addresses the accounting and reporting of arrangements in which a government contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset for a period of time in an exchange or an exchange-like transaction.

The GASB issued Statement #95, *Postponement of the Effective Dates of Certain Authoritative Guidance* which postpones the effective implementation dates of certain pronouncements as a result of the COVID-19 pandemic. Statements #83, #84, #88, #90, #91 #92 and #93 are postponed by one year. Statement #87 has been postponed by 18 months.

The GASB issued Statement #96, *Subscription-Based Information Technology Arrangements*, which is generally required to be implemented in fiscal year 2023. This pronouncement addresses the accounting and financial reporting for subscription-based information technology arrangements for government end users.ML
