

TOWN OF GEORGETOWN, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2014

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To the Honorable Board of Selectmen
Town of Georgetown, Massachusetts

In planning and performing our audit of the financial statements of the Town of Georgetown, 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 Georgetown, 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.

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

Powers & Sullivan LLC

March 23, 2015

TOWN OF GEORGETOWN, MASSACHUSETTS

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JUNE 30, 2014

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Prior Year Comments

Water Commitments and Receivable Reconciliation

Prior Comment

The Town's water commitments had not been recorded in the general ledger and the accounts receivable balances had not been reconciled from the general ledger to the supporting detail. Reconciling both the activity and the ending balances of the detailed water accounts receivable records to the general ledger is an integral internal control procedure. The purpose of this internal control is to safeguard the assets of the Town and provide reasonable assurance that transactions affecting this revenue source are executed in accordance with management's authorization and recorded properly in the Town's ledgers. The possibility of errors and/or omissions occurring and not being detected increases without timely reconciliations.

We recommended the water commitments be recorded in the general ledger and the water accounts receivable balance be reconciled on a monthly basis. The timely reconciliation of these receivables will enable the Town to detect errors and discrepancies in a more effective and efficient manner, thereby strengthening the overall internal controls of the Town.

Current Status – Resolved

During fiscal year 2014, the Town began the process of reconciling the water receivable on a monthly basis.

ESCO Monitoring

Prior Comment

The Town has entered into an agreement with an Energy Service Company (ESCO) for upgrades at several Town and School buildings. This project has anticipated savings over a 15 year period in the form of a reduction to electricity and gas costs. Substantial construction related to the project was completed during fiscal year 2013 and the energy savings period began in fiscal 2014.

Embedded in the ESCO agreement is the stipulation that should the Town not meet their projected savings, the ESCO would reimburse the Town for the difference.

We recommended the Town develop a strategy to monitor electricity and gas costs to determine if the savings target is being met or if the Town is entitled to a refund.

Current Status – Unresolved

The Town receives an annual statement from the ESCO that details the Town's electricity and gas usage. The Town has hired an independent consultant to review the report to ensure that the electricity and gas savings are consistent with the ESCO agreement. The Town communicates with the consultant via phone calls and no formal documentation is maintained to demonstrate that the ESCO savings requirement has been met. We recommend that the Town obtain written documentation describing the procedures performed by the consultant and the results of the procedures.

Accounting for Fixed Assets

Prior Comment

Since the implementation of GASB #34, the Town has compiled a detailed listing of capital assets owned by the various departments of the Town. Maintaining this list requires the Town to account for all additions, deletions, disposals and transfers of fixed assets. The Town has annually accounted for fixed asset additions through the purchasing process; however, procedures have not been implemented to properly account for deletions, disposals or transfers of assets. In order to maintain a complete and accurate fixed asset listing, the Town needs to develop procedures to facilitate accurate fixed asset reporting.

We recommended the Town develop and implement policies and procedures to insure the proper accounting for all fixed asset deletions, disposals and transfers.

Current Status – Partially Resolved

The Town has hired an assistant in the Town Accountant's office who will assist with monitoring fixed asset activity throughout the year. The Town anticipates this comment to be fully resolved in 2015.

Chapter 90 (Highway) Reimbursement Requests

Prior Comment

At June 30, 2013, the Town had a cash deficit in the Chapter 90 grant account of approximately \$104,000, of which no requests for reimbursement had been submitted with the state as of August, 2013. The Chapter 90 program requires funds to be spent on approved projects prior to requesting reimbursement from the State. The process of not requesting reimbursement of Chapter 90 project expenditures in a timely fashion develops internal control weaknesses. First, the Town experiences decreased cash flows and lost investment earnings while awaiting reimbursement. Second, the Town is at risk of jeopardizing its reimbursement from the State if the reimbursement request is delayed. Finally, a deficit balance has a negative impact on the Town's certified free cash, leaving fewer funds available for appropriation and immediate use for other Town purposes.

We recommended the Town review its policies and procedures for requesting Chapter 90 reimbursements and implement procedures to request funds on a quarterly basis at a minimum.

Current Status – Resolved

At June 30, 2014, the Town had a deficit fund balance in the highway improvements fund of approximately \$452,000. This amount was fully supported by pending reimbursements from the State. The Town received reimbursement to cover the deficit balance by August 2014.

Procurement Compliance

Prior Comment

The Town was unable to provide a signed contract for construction services for one of the transactions selected during audit testing. As a result, the Town is not in compliance with state procurement laws related to this contract.

We recommended the Town strengthen controls over procurement to ensure compliance with state procurement laws.

Current Status – Resolved

The Town has strengthened controls and provided adequate supporting documentation.

Current Year Comments

Fixed Asset Capitalization Policy

Current Comment

As part of the implementation of GASB #34, the Town had an initial accounting completed of all of their fixed assets. At that time, the Town established \$5,000 as their threshold in determining which expenditures are capitalized and depreciated.

Based on the size of the Town's asset base and the types of assets being purchased and/or constructed, the Town should reevaluate the initial fixed asset policies adopted and consider the implementation of a higher dollar threshold for fixed asset capitalization. This would simplify the process by reducing the number of items that the Town capitalizes without significantly impacting the financial statements.

Recommendation

We recommend that Town reassess their assets base and design a policy that is reasonable based on their total assets.

Informational Comment

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

Current Year 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 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 2015.

As discussed in the previous comment, 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 the 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 and should begin planning to be prepared to implement the new standards.

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.