

TOWN OF ROCKLAND, MASSACHUSETTS
SUGGESTIONS FOR IMPROVEMENT IN ACCOUNTING
PROCEDURES AND INTERNAL CONTROL
JUNE 30, 2016



To the Honorable Board of Selectmen
Town of Rockland, Massachusetts

In planning and performing our audit of the financial statements of the Town of Rockland, Massachusetts (the Town) as of and for the year ended June 30, 2016, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. 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 combination of deficiencies, in internal control such 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 limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 herein are intended to improve the system of internal accounting control or result in other operating efficiencies. The factual accuracy of our comments has been discussed with management to obtain their concurrence before the development of our recommendations for improvement.

This communication is critical by nature because its purpose is to identify areas where improvements can be made. We have not commented on positive attributes of the Town's financial management systems. It is also important to understand that 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 management and personnel during our engagement.

This communication is intended solely for the information and use of management, the Board of Selectmen, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Norwell, Massachusetts
July 26, 2017

STATUS OF PRIOR YEAR COMMENTS

As part of our audit of the Town's financial statements for the year ended June 30, 2015, we had several comments and suggestions, issued in our report dated June 21, 2016. Due to the timing of the report, certain issues may not have been able to be fully addressed for the year ended June 30, 2016. The Town has taken certain corrective action to address abatements associated with ambulance billing, as well as improved reconciliation of monthly withholding account activity. The status of additional prior year comments that are still applicable have been referenced accordingly and incorporated into our current year comments below.

CURRENT YEAR COMMENTS

As a result of our audit for the year ended June 30, 2016, we make the following additional comments and recommendations.

Enhancement of documentation and reconciliation of compensated absences

As recommended in the prior year, we continue to recommend the Town maintain compensated absences (i.e. sick, vacation, etc) completely within the payroll system (Harper's). This allows for a timely accounting of available time as each payroll is being processed. Compensated absences are currently maintained within decentralized manual systems and generally after payroll has been processed. Moreover, we recommend a formalized reconciliation with departmental records and department head signoff be implemented to ensure that all time incurred is appropriate in accordance with applicable contracts, etc. on an annual basis and not only at the point of the employee's separation from service or other occurrence.

Enhance reporting of capital assets inventory

As recommended in the prior year, we continue to recommend the Town review procedures surrounding the maintenance of the decentralized capital asset listing being maintained for financial reporting purposes for completeness (i.e. additions, disposals, idle, impaired assets, etc.). While the Town generally has implemented appropriate procedures to capture capital asset additions throughout the year, we recommend additional procedures be evaluated to specifically address any potential disposals, idle or impaired assets. We recommend the capital asset inventory be reviewed annually by appropriate department heads to ensure completeness, and to determine all idle, impaired, or disposed assets have been accounted. Procedures should also include, but not be limited to, review of Board of Selectmen meeting minutes, personnel periodic physical inspections of these inventories on a random basis to ensure these assets are in the Town's custody and proper safeguards have been implemented surrounding their storage, maintenance and usage. These routine processes should be formally documented, and "attested to" by appropriate personnel.

Student Activity funds

We recommend the Town review the administration and reporting associated with student activity accounts. A formalized reconciliation of student activity account balances was not available for June 30, 2016. Updated guidance from Massachusetts Department of Elementary and Secondary Education (DESE) as to municipal entities' recommended policies and procedures surrounding the maintenance of these accounts re-emphasizes the importance on the annual reporting requirements, annual inspections and a triennial agreed-upon procedures engagement be performed by an independent auditor of student activity accounts be performed. We continue to recommend the Town review this guidance and implement procedures accordingly.

Internal controls, policies and procedures and risk assessments

While the Town generally has implemented many monitoring and oversight procedures (most specifically through the Town Accountant's office), we continue to recommend the Town implement a formalized "risk assessment" program, which addresses financial, operational and compliance issues in a proactive manner. Additionally, it is important to evaluate the potential for additional internal audit function to departmental detail and review with overall financial analysis. Formalized risk also ensures that the level of the "risk of loss" has been documented and accepted by management and those charged with governance. As a result of our current year audit (and prior year), in addition to the aforementioned comments, continue to recommend the Town evaluate the following issues and comments in evaluating established policies and procedures and operations of the Town:

- We continue to recommend the actual transmission of school department payroll to the third-party payroll service be performed through the Town Treasurer's office after vouchers and appropriate supporting detail has been reviewed by the Town Accountant's office and Town Treasurer. In our opinion, this streamlines the overall process in detecting errors, omissions, corrections prior to the payroll being processed by the vendor.
- During our audit testing, we noted an instance in which a school department employee was not paid additional compensation in a timely manner. This relates to additional compensation due to the employee covering for another person. Massachusetts General Law (Chp149:148) and IRS regulations do not allow for deferring the payment of wages. All wages should be paid within appropriate time frame after the end of the payroll period in which earned (i.e. generally six days).
- We recommend the Town evaluate potentially expanding the Town's human resource position in the future to all departments town-wide, and potentially segregating employee information setup and maintenance within the accounting/financial management system solely through the human resources department. In our opinion, this enhances the overall internal controls surrounding the payroll process by establishing additional segregation of duties and "checks and balances" between payroll processing and employee maintenance.
- Continued improvement surrounding withholding account reconciliations, and segregation of account variances. Additionally, we continue to recommend the Town Treasurer reconcile the Retired Municipal Teachers (RMT) assessment, which is taken directly from the Town's state aid, to ensure all amounts being assessed are accurate and applicable to the Town.
- We recommend the Town review allocation of costs to special revenue funds and revolving funds to ensure the reasonableness of costs being charged on an annual basis with the associated revenues. The Town should consider formally reviewing all fees.
- Consider in the future implementation of a more centralized purchasing/procurement department, inclusive of purchase order module (town-wide) to further enhance the monitoring of appropriations and the existing procurement processes and monitoring established.
- During our testing we noted several instances [(2) school department, (1) police, (1) fire] of Federal form I-9 were unavailable for review. The Town, inclusive of the School Department, should review files to ensure completeness.

Informational:

The following are the more significant recently issued accounting pronouncements which management needs to evaluate that may affect the Town's financial reporting in a significant manner.

Other Postemployment Benefits (OPEB)

Government Accounting Standards Board, Statement #74, *Financial reporting for Postemployment Benefit Plans Other Than Pension Plans*, is required to be implemented in fiscal year 2017. This new standard replaces existing accounting for defined benefit OPEB plans that are administered through trusts or equivalent arrangements. Additionally, this standard increase disclosure related thereto and requires reporting as supplementary information a 10-year schedule detailing changes in the liability, among other disclosures.

Additionally, Government Accounting Standards Board, Statement #75, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, is required to be implemented in fiscal year 2018. This new standard replaces the current reporting requirements of GASB Statement #45. Most notably, the new standard will require the unfunded liability to be reported on the Town's Statement of Net Position (Balance Sheet) rather than only a note disclosure. This is similar to the net pension liability which was implemented in the current year with GASB Statement #68. This will have a material effect upon the financial reporting (net position) of the Town.

Tax Abatement Disclosures

Government Accounting Standards Board, Statement #77, *Tax Abatement Disclosures*, is required to be implemented in fiscal year 2017. This new standard requires state and local governments to report additional disclosures related to tax abatement programs with individuals or entities. For the purpose of the Statement, a tax abatement is defined as: a reduction in tax revenues that result from an agreement of one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the government or the citizens thereof.

Leases

Government Accounting Standards Board, Statement #87, *Leases*, is required to be implemented in fiscal year 2020. This new standard defines a lease as a contract that conveys control over the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. The Statement establishes a single model for leases accounting (eliminating distinctions between operating and capital leases) on the principle that leases are financings of the right to use an underlying asset. Accordingly, the Town (lessee) is required to recognize a lease liability and an intangible right-to-use lease asset.
