

**TOWN OF STONEHAM, MASSACHUSETTS**

**MANAGEMENT LETTER**

**JUNE 30, 2016**

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To the Honorable Board of Selectmen  
Town of Stoneham, Massachusetts

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

This communication is intended solely for the information and use of management of the Town of Stoneham, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties

*Powers & Sullivan LLC*

March 1, 2017

TOWN OF STONEHAM, MASSACHUSETTS

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# ***Current Period Comments and Recommendations***

## **Journal Entry Approval**

### Comment

The Town did not consistently maintain supporting documentation to substantiate or explain the purpose of adjusting journal entries. The support often consisted of a copy of the entry with hand written notes explaining the reason for the entry. The MUNIS accounting system (system) is the official financial record for the Town and is used for budgetary control, financial reporting, and as a basis for many management decisions. Strong controls over manual adjustments are necessary to ensure the integrity of the information in the system. All manual adjustments recorded as journal entries should be supported by a form explaining the purpose for the adjustment, which accounts will be impacted, and an approval from the person requesting the adjustment and the Town Accountant.

### Recommendation

We recommended that the Town take steps to ensure that all general journal entries are properly authorized and approved. The Town should consider implementing a standardized form for departments to use when requesting journal entries that includes the reason for the entry and a documented approval process.

## **Police Details**

### Comment

The Town has not reconciled the balance in the police detail agency account on the general ledger and the outstanding police detail receivable records maintained at the police department. Additionally, the detailed police detail receivable listing as of June 30, 2016, includes over \$49,000 that has been outstanding for over six months, including \$36,000 due from Stoneham DPW.

The Town maintains police details in an agency account on the general ledger where payments are made to officers when details are worked, creating a cash deficit until payment is received by the vendor. It is necessary for the Town to reconcile the cash deficit in the ledger with the detailed receivable listing on a regular basis to ensure that the amount reported per the ledger is correct, to verify that the detailed listing maintained by the police department is correct and that the Town is taking the appropriate steps to collect outstanding balances, and to minimize the possibility of creating a permanent deficit that would ultimately need to be funded by the Town. It is also necessary for the Town to review overdue accounts on a regular basis and to initiate collection procedures. This should include making sure that payments are made between Town departments, if appropriate.

### Recommendation

We recommend that the Town implement procedures to reconcile the general ledger police detail receivable balances with the detailed departmental receivable balances on a monthly basis and implement a system to verify that payments are made for details provided within Town departments.

We also recommend that the Town establish procedures for collections and a system for writing-off uncollectible accounts.

## Stoneham Arena

### Comment

Stoneham Arena is a Municipal Ice Skating Rink offering a variety of programs including Public Skating, Adult Stick Practice, Open Freestyle Figure Skating, Pre-School skating classes, and private rentals and events. Significant organizations that utilize the Arena include Stoneham Youth Hockey, Stoneham High School, Austin Prep High School, Maignon High School, Learn to Figure Skate, Stoneham Arena Summer Open Freestyle Program, M.I.A.A. State High School Hockey Tournament, and several additional figure skating and hockey programs.

The Arena operations are run as a department of the Town of Stoneham, through the General Fund. Arena annual revenues and expenditures for fiscal year 2016 totaled approximately \$541,000 and \$431,000, respectively.

The Arena uses Maximum Solutions as a software program for some of their operations. During fiscal year 2016, the Arena experienced a system failure with the program and was unable to recover some of their records related to ice time that is used to monitor accounts receivable. The Arena used manual ice schedule records to verify balances and collect outstanding bills; management believes that all outstanding bills from fiscal year 2016 have since been collected. This incident highlighted several weaknesses in the Arena's systems. We met with the Arena Manager to review their system of internal controls. The areas where we recommend improvements to the system of controls are summarized as follows:

- The Arena did not have adequate back-up procedures in place to allow for the recovery of information lost from the system failure. The Arena should work with the Town's IT department to provide automatic daily back-ups of the Arena software and back-up data should be stored at a remote location.
- The Arena does not make full use of the Maximum Solutions Point of Sale System (System) to record all revenue. The System is used mainly for scheduling and only "over-the counter" receipts are processed through the System. Revenue from the Figure Skating Program and the League Ice Time are not processed through the System. Due to the system failure, no revenues had been entered into the system from July 2016 through September 2016. To increase controls over the Arena's revenues, all receipts should be processed through the System and then kept in a secure location until they can be deposited with the Town Treasurer or in a Town bank account. To accomplish this, the Arena would either need to install additional registers, or change the payment process.
- The Software is currently only available at the Arena Office. This limits the Town's access to financial data of the Arena until funds are ultimately collected and deposited with the Town. Controls would be strengthened if the Town Accountant were provided with remote access to the System to monitor revenues and receivables in real time.
- The Arena does not currently have any contracts with customers to document the terms of payment, rates, or services to be provided. The Arena bills and collects funds based solely on past practice and the knowledge of the staff. This has resulted in large receivable balances at certain times of year and increases the risk that all funds may not be collected timely. The Arena should work with Town Counsel to develop a standard contract that will document terms including billing and collection that can be enforced and that meet the operating needs of the Arena.
- The Arena sells coupon books for Freestyle skating at a discounted price. The coupon books are printed at the Arena office and are not pre-numbered. Since the books are not pre-numbered, there is risk that all coupon books and the associated fees have not been accounted for. Controls would be strengthened by pre-numbering and accounting for all coupon books.

- The Arena has been using the Maximum Solutions software program for several years, mainly as a scheduling program without utilizing the complete billing and accounts receivable capabilities. The staff has not had adequate training to show the full capabilities of the software and they are not certain that software upgrades have been updated. The Arena should conduct an evaluation of the software needs of the department, implement software upgrades if necessary and schedule training to fully utilize the capabilities of the software and to reduce the reliance of manual records.
- The Arena does not have written policies and procedures to document their billing and collection processes. Controls would be strengthened by a documented policies and procedures manual to identify key control processes such as billing, collections, cash handling, and the timing of turnovers to the Town. The written policies and procedures should address all revenue sources including concessions, vending machines, skate sharpening services, and all merchandise sales.

Recommendation

We recommend the Arena implement procedures to strengthen internal accounting controls as detailed above through documentation of the internal control systems, the full use of an automated point-of-sale system to record sales revenue, receivables, and receipts; additional staff training; use of pre-numbered documents and a standard contract for ice time.

**Department of Public Works Time Allocation**

Comment

The Department of Public Works does not have a timekeeping system to accurately allocate time charged between the cost centers within the general fund and to the water and sewer enterprise funds. If time is not accurately allocated to the enterprise funds, the water and sewer users could either be subsidizing or could be subsidized by the general fund. Additionally the water and sewer users could be subsidizing each other.

The Department budgets each employee based on the cost center that they are typically assigned to and actual time is charged based on the budget, not where the employees actually worked. The exception is overtime which is charged based on actual overtime worked. Since the department does not require the use of timesheets or a time keeping system to determine where employees have actually worked, there is no system to verify that time is accurately charged.

Within the general fund, the Department of Public Works includes administration, highway, snow and ice removal, street lighting, trash removal, vehicle maintenance, cemetery and building maintenance. Since the Town votes the budget for these items as a bottom line budget, there is no technical requirement to properly allocate time within these cost centers. However, since the department does not maintain a record of actual time charged to each function, any information other than the bottom line costs for DPW could be inaccurate and misleading.

Recommendation

We recommend that the DPW department implement and document a cost allocation plan to ensure that time is reasonably allocated within the department's different functions.

## **Department of Public Works Use of Manual Water Meter Records**

### Comment

The Department of Public Works uses an automated meter reading and billing system that allows for almost all of Town's water meters to be read quickly through the automated system and the readings are transferred to the billing software to generate bills. The Department then manually writes the meter readings into an old book system that is maintained in each customer's folder for reference. The Department relies on the manual records to respond to customer questions and concerns about their bills. The process of transferring over 6,000 meter readings manually to a written document is inefficient and counterproductive to the automated meter reading system. We were advised that the Department is unable to obtain the same meter reading history from the automated system that they have from the manual records.

### Recommendation

We recommend that the Department work with their Software vendor to determine how their needs can be met through the automated system. The System should be able to produce a meter reading history that can be easily accessed and used as a resource to answer customer questions. Once the Department can rely on the automated system, they should eliminate the duplication of meter readings into the manual records.

## **Fiscal Policies**

### Comment

The Town does not maintain a written policy and procedures manual documenting day-to-day processing and controls and, as such, is at risk if critical tasks cannot be completed due to an extended or unforeseen absence. A formal policy and procedures manual will assist in the training of new employees thereby reducing the amount of time required away from the daily operations.

The policy and procedures manual should also include month end and year end closing procedures and checklists. Documented checklists will help to ensure that proper procedures are performed by appropriate personnel, in a logical order, and in a timely fashion.

### Recommendation

We recommend that the Town develop a written policy and procedures manual and that it be reviewed and approved 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.



## **Documentation to Support Procurement Decisions**

### Comment

The Town often utilizes statewide contracts, as an alternative to conducting its own procurement. This allows the Town to leverage the state's purchasing power and can save time while providing easy access to goods and services that have been established through a competitive process by the state's operational services division. We noted that department's do not consistently maintain documentation to show that a purchase qualified under a state contract. All procurements must contain documentation to support the basis for the purchasing decision. Lack of such documentation puts the Town at risk of non-compliance with state procurement laws.

### Recommendation

We recommend that all departments be required to maintain support to document procurement decisions. This should include support to verify that a procurement qualifies under a state contract, if applicable.

## **Management of Bond Anticipation Notes**

### Comment

Bond Anticipation Notes (BAN) are used as temporary financing on capital projects until the Town permanently finances the project through the issuance of bonds or votes to pay for a portion of the project with available funds. Often, BAN's mature and are reissued or "rolled over" into another BAN until the permanent financing takes place. During fiscal year 2016, a \$3,250,000 Town BAN matured and was paid with Town funds rather than being rolled over. This unintentional error left the Town with a year end deficit balance since no temporary or permanent financing was in place to support project expenditures. The pay-down of the BAN also reduces the Town's borrowing authority since it reduces the associated borrowing authorization. The deficit balance has a negative impact on the Town's available resources.

### Recommendation

We recommend the Town review its debt management processes to reduce the chance of a similar situation occurring in the future.

***Prior Year Period Comments and  
Recommendations***

## **Tax Title Balance**

### Prior Year Comment

The Towns' tax title balances between the Collector and the Town Accountant has been out of balance by the same amount for a number of years. The Collector is approximately \$57,000 greater than the Town Accountant. It was decided that if the variance remained constant, that at some point an adjustment should be made to bring the amounts into the balance.

### Current Status – Resolved

The Town has identified the variance to consist of the Town's trash, water and sewer liens, no adjustment was considered necessary.

## **Stagnant Special Revenue Accounts**

### Prior Year Comment

The Town had 24 Special Revenue Accounts that have not had any activity in two years or longer. Many of these, for example the donation accounts, could still have a purpose, but may be getting overlooked or forgotten by department heads. It was suggested that the Town analyze these accounts in conjunction with the department heads to determine what accounts still have a purpose and dispose of those accounts whose purpose has expired as a one-time housekeeping entry. Normally such analysis results with department heads spending funds available; and the housekeeping entry not being significant.

### Current Status - Unresolved

As of June 30, 2016, the Town had 29 Special Revenue Accounts that had no activity during the fiscal year and still had balances. There were many other Special Revenue Accounts on the ledger with no activity and no balances. We continue to recommend that the Town analyze these accounts and performed the necessary housekeeping adjustments for inactive accounts.

## **Property Tax Receivables**

### Prior Year Comment

It has been reported to management for several years that the Town's receivable balances had begun to trend negatively as the balances had increased by over 12% from fiscal 2013. Further review indicated that the Collector had not sent demand letters prior to June 30 and tax title had not been conducted in the most aggressive manner. Similar observations were made in fiscal year 2015, as outstanding receivable balances increased by over 7%. This situation was discussed with the Collector who indicated that the staffing in the Collector's office was causing this to be at the lower end of the priority list and thus it was not getting done timely; and the same expectation was in place for fiscal 2016.

It was recommended that the Town address this situation; the collection of delinquent balances through the most effective legal means is important to a community's cash flow. In the prior year it was recommended that the Town evaluate the possibility of assigning its delinquent taxes as is being done by many communities that have resource issues. If this is not a desirable choice, then the Town should address the resources available to conduct this activity in an efficient manner internally.

### Current Status – Partially Resolved

During fiscal year 2016, the Town has put a significant number of outstanding real estate accounts into tax title. This has secured the Town's ability to pursue collection on these properties, and has increased the outstanding tax title account by over \$400,000. We continue to recommend that the Town take action to collect on the outstanding tax title accounts and on the outstanding receivable balances. Once all available means of collection have been exhausted, the Town can take steps to abate older, uncollectible balances.

### **Golf Course Invoice**

#### Prior Year Comment

In The prior year, the Golf Course paid a capital related invoice for mowers (based on the article description) for \$64,168. However, the Golf Course did not pay the bill timely and the vendor sent a summarized statement indicating past due amount. It was this statement that was used as the supporting documentation for paying the bill. From the statement, it was not possible to determine exactly what was purchased and thus the documentation was not sufficient. It was suggested that the Town adopt a policy of paying bills only upon the presentation of an invoice not a monthly statement.

#### Current Status - Resolved

The Town has implemented procedures of paying bills only upon presentation of an original invoice.

### **Allowance for Abatements**

#### Prior Year Comment

At June 30, 2015, the Town maintained \$1.3 million in its allowance for abatement accounts. Reporting from the Assessor's office indicated that the Town's exposure is approximately \$0.5 million, with the majority related to claims by telecom companies. Under DOR requirements, the Town must keep sufficient amounts in its allowance for abatements to cover all outstanding taxes plus any estimated settlement from claims at the Appellate Tax Board.

In 2015, the Town had almost \$1.1 million in real and personal property taxes outstanding. Given that over 60% of those related to 2015 taxes, a substantial portion of these would be collected in 2016, thus it appears that the allowance for abatements could be excessive.

It was suggested that the Assessor conduct a thorough analysis of these accounts and evaluate the release of overlay to the general fund for appropriation or to stabilization.

In addition, because the Appellate Tax Board liability is material and results in an adjustment on the Town's financial statements, a more careful evaluation should be prepared in arriving at the estimated liability to be accrued by the Town.

### Current Status – Resolved

During fiscal year 2016, the Assessor's did release some of the older overlay balances in excess of outstanding receivables. We continue to recommend that management monitor the balances vs. the necessary funds in the reserve for abatement accounts and work with the Assessor's office to release excessive reserves, keeping in mind that the municipal modernization act has changed the requirements for maintaining the reserve for abatements accounts going forward.

### **Highway Chapter 90 Deficit**

#### Prior Year Comment

Typically, Chapter 90 accounts run in a deficit amount at year end. These are normally funded in the subsequent year as expenditures always precede the grant receipt. Per review of the Special Revenue funds, it was determined that an account described as Highway Chapter90—fiscal year 2013 ended fiscal 2014 in deficit of approximately \$10,000, but was not funded in fiscal year 2015 and remained in deficit at June 30, 2015.

It was recommended that the Town evaluate whether this was a coding problem, or a true deficit. If it is determined to be a true deficit, it should be raised on the tax recap.

#### Current Status - Resolved

As of June 30, 2016, the Town did not report any fund deficits for Chapter 90.

## ***Informational Comments***

## 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 will start 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 is required to be implemented in 2017.
- The GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018.

The GASB is encouraging earlier application of these standards. To briefly summarize these new standards –

- GASB #74 and #75 will substantially change the reporting for other postemployment benefit liabilities and expenses. Changes in the OPEB liability will be immediately recognized as an 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 OPEB liability (asset) determined annually as of the fiscal year end. The net OPEB liability (asset) equals the total OPEB liability for the OPEB plan net of the OPEB plan's fiduciary net position. The OPEB liability is the actuarial present value of projected benefits attributed to for each plan member individually, from the period when the plan member first provides service under the benefit terms through the period in which the member is assumed to exit service. The OPEB plan's fiduciary net position is the accumulated plan assets net of any financial statement liabilities of the plan.

The Town should expect to record significant 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.

## 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](http://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.