

TOWN OF STONEHAM, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2017

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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, 2017, 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 8, 2018

TOWN OF STONEHAM, MASSACHUSETTS

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***Current Period Comments and
Recommendation***

Timeliness of Cash Reconciliations

Comment

As of the end of October, 2017, the Town had not reconciled cash between the Treasurer's records and the general ledger as of June 30, 2017, and had not reconciled cash for any month since June. Without timely monthly reconciliations there is a significant risk that errors or irregularities in amounts that would be material to the Town's financial statements may occur and not be detected within a timely manner by Town employees in the normal course of performing their assigned functions. Furthermore, the potential for fraud to occur is significantly reduced with regular reconciliation procedures.

Recommendation

We recommend that procedures be implemented to assure for the monthly reconciliation of Treasurer's cash to the general ledger. The actual monthly reconciliation of all cash accounts, along with reconciliation to the general ledger, should be completed no later than the end of the following month.

Management's Response

The Town recognizes the importance of reconciling cash on a timely basis and procedures will be put in place to allow this to happen.

Purchase Order System

Comment

During expenditure testing we noted that a number of purchase orders were dated past their corresponding invoice dates. Creating purchase orders after the invoice is received bypasses the Town's purchasing policies and defeats the control that a purchase order system is intended to provide.

We were advised that subsequent to year end, due to the lack of compliance with the purchase order system, the Town discontinued the use of the purchase order system and transitioned to a voucher based system. A purchase order system can be an effective internal control system for the Town as purchase orders allow the Town to ensure that budgetary funds are available and that the purchase has been properly approved before funds are expended.

Recommendation

We recommended the Town re-implement the purchase order system and implement a process to ensure that purchase orders are initiated prior to the procurement of goods and services.

Management's Response

The Town, if the May Annual Town Meeting approves the Article, will be making many upgrades to MUNIS. The Purchase Order System will be looked at as one of the upgrades.

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

Journal Entry Approval

Prior 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.

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.

Current Status – Resolved. The Town has implemented a journal entry approval form to document the entry and the approval of the Town Accountant.

Police Details

Prior Comment

The Town had 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, included 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.

We recommended 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.

Current Status – Partially Resolved. The Town made progress in reconciling the accounts during fiscal year 2017; we continue to recommend the Town establish more formal procedures for collections and write-offs of uncollectible accounts.

Stoneham Arena

Prior 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.

We recommended 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.

Current Status – Unresolved. There have been no significant changes in this comment during fiscal year 2017.

Management's Response

The Stoneham Arena has purchased software to satisfy the recommendation which will be installed in April 2018. Once install by the IT department, it will be networked as was the previous software. The Town will also look at adding a module in MUNIS to meet the recommendation.

Department of Public Works Time Allocation

Prior 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.

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

Current Status – Resolved. The DPW department has implemented a system to charge actual time based on where the employee begins their day. Although this does not account for employees who shift functions throughout the day, it will provide a more accurate accounting of the time spent on each function.

Department of Public Works Use of Manual Water Meter Records

Prior 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.

We recommended 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.

Current Status – Resolved. The automated meter reading and billing system are working as intended and we have no findings related to its operation. We recommended the elimination of the manual part of the process for efficiency purposes. The Department feels that the manual system provides value beyond the billing process, as explained in their response below. For financial statement purposes the continuation of the manual process does not create a risk of error and therefore we consider this matter to be resolved.

Management's Response

The manual records are completely separate from the automated billing system, although they do provide a back-up. These records are the primary tool of the Department and are used on a daily basis by both office and field personnel as well as other Town Hall departments; they are available 24/7. The consumption history is only one of more than 20+ fields of information on each account. This gives the Town a complete visual history without going to multiple sources and still not having the whole visual picture. They are easy to understand by field personnel and the general public. They are manually scanned for inconsistencies and generate numerous letters (50+ per cycle) to customers alerting them to potential problems, to which they are very grateful. The Department utilizes these records to increase customer service.

Fiscal Policies

Prior 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.

We recommended 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.

Current Status – Unresolved. The Town has not documented fiscal policies and procedures.

Management's Response

The Town has hired a new Town Accountant in January 2018 and some policies have already been put in place in fiscal year 2018. The Town has implemented a Town Reimbursement Policy. As part of this policy, employees are now aware of what can be purchases and what cannot along with what documentation is needed in order to process bills.

Documentation to Support Procurement Decisions

Prior 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. Department's did 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.

We recommended 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.

Current Status – Resolved. A sample of procurement documentation tested during fiscal year 2017 showed documentation for procurement decisions including listings of quotes received or maintaining a support for procurements made based on the state bid list.

Management of Bond Anticipation Notes

Prior 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.

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

Current Status – Resolved. – This was a situation that would not occur every year. The Town plans to review the status of maturing BANs in the future to avoid a similar situation.

Stagnant Special Revenue Accounts

Prior Comment

The Town had 29 Special Revenue Accounts that had no activity during fiscal year 2016 and still had balances. There were many other Special Revenue Accounts on the ledger with no activity and no balances. Many of these, for example the donation accounts, could still have a purpose, but may be getting overlooked or forgotten by department heads. We recommended 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. – There has been no change in this comment during fiscal year 2017.

Management's Response

The new Town Accountant has started looking at these funds and some will be closed by the end of fiscal year 2018.

Property Tax Receivables

Prior Comment

It had been reported to management for several years that the Town's receivable balances had begun to trend negatively as the balances had increased and the Collector had not sent demand letters prior to June 30 and tax title had not been conducted in the most aggressive manner.

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. It was also recommended that the Town evaluate the possibility of assigning its delinquent taxes as is being done by many communities that have resource issues. The Town could then determine the best process to balance available resources with an aggressive collection process.

Current Status – Resolved. – During fiscal year 2016, the Town put a significant number of outstanding real estate accounts into tax title and the Town has since been more aggressive in pursuing collections.

Informational Comments

Future Government Accounting Standards Board (GASB) Statements for OPEB

Comment

The GASB has issued a new pronouncement, *GASB Statement #75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which will significantly affect the accounting and reporting requirements for Other Postemployment Benefits (OPEB). The new standard will be effective for fiscal year 2018 and will substantially impact your financial statements and will also affect the requirements for accumulating the necessary data to meet the reporting requirements.

GASB #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.

As a result, the Town should expect to record significant OPEB liabilities in the future.

Recommendation

We recommend that management prepare for the financial statement reporting and disclosure changes that will be required by meeting with your actuaries and financial advisers. 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

The Town is aware of GASB Statement #75 and will be prepared for the financial statement reporting and disclosure changes that will be required.

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

The Town will evaluate and assess our internal control system and will follow the best practices for establishing and documenting our control system using the COSO Internal Framework.