

TOWN OF GRAFTON, MASSACHUSETTS

MANAGEMENT LETTER

FOR THE YEAR ENDED JUNE 30, 2017

TOWN OF GRAFTON, MASSACHUSETTS

Management Letter

Year Ended June 30, 2017

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To the Board of Selectmen
Town of Grafton
Grafton, Massachusetts

Dear Members of the Board:

In planning and performing our audit of the basic financial statements of the Town of Grafton 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 Grafton'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 basic 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.

Definitions

- 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 significant deficiency is a deficiency, or 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.
- 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.

Our consideration of internal control over financial reporting was for the 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 that we consider to be material weaknesses, as defined above.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We have already discussed these comments and suggestions with Town personnel. We will be pleased to discuss them in further detail and to assist you in implementing the recommendations.

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

Scanlon and Associates, LLC

Scanlon & Associates, LLC
South Deerfield, Massachusetts

February 28, 2018

CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

1. Year-End Closing Procedures

Comment:

During our audit we noted improvement can be made with regard to year-end closing and reporting. We recommend a procedure be implemented to proof free cash amount using the year-end general ledger reports before documents are submitted to DOR for free cash certification. By implementing this procedure it would reduce the risk of free cash being certified at an incorrect amount.

2. Implementation of Future GASB Statements

Comment:

In an effort to enhance financial information of a government's financial statements, the GASB is continually issuing new pronouncements that will effect what is required to be reported in a government's financial statements. Over the past couple years GASB has been active in developing new standards. It is important that the Town be aware of the current and future statements. The following are some of new GASB pronouncements that will be required to be implemented in future fiscal years:

- GASB Statement No. 75 – *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. This statement is required to be implemented in fiscal year 2018.
- GASB Statement No. 83 – *Certain Asset Retirement Obligations*. This statement is required to be implemented in fiscal year 2019.
- GASB Statement No. 84 – *Fiduciary Activities*. This statement is required to be implemented in fiscal year 2020.
- GASB Statement No. 85 – *Omnibus 2017*. This statement is required to be implemented in fiscal year 2018.
- GASB Statement No. 87 – *Leases*. This statement is required to be implemented in fiscal year 2021.

Given the significant impact of these GASB statements on the Town's financial accounting and reporting, we recommend that the Town familiarize and educate themselves with the aforementioned statements to ensure proper implementation.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

1. Deficit Accounts

Prior Year Comment:

During our audit we noted several accounts that were in deficit at June 30, 2016. A summary is as follows:

Chapter 90 Highway Grant	(a) \$	(162,016)
School Grants	(a)	(38,240)
Police Off-Duty Detail	(a)	(33,589)
Destination Imagination	(a)	(22,514)
Public Safety Grants	(a)	(18,807)
Other	(a)	(12,333)

(a) - DOR Reduction to Free Cash Certification

Our testing on these accounts revealed these accounts were the result of timing issues of receipts and expenditures, lack of timely request for reimbursement from granting agencies and lack of reconciliation from departments to the Town's general ledger. During our fieldwork we had communications with the Town Accountant and other Town Personnel with regard to these accounts.

We recommend the Town financial personnel implement procedures to review all deficit accounts on a periodic basis to determine why they are in deficit and how the deficit will be provided for or eliminated. Furthermore, we recommend that Departments monitor their respective accounts to ensure deficit accounts are properly funded.

Status- Fiscal Year 2017 Audit:

The Town has implement procedures to review on a periodic basis deficit accounts to ensure they are properly funded. However, one deficit account that needs to be provided for is destination imagination, which has a deficit balance at June 30, 2017 of \$24,129. We recommend the deficit be provided for by the end of year (June 30, 2018).

2. Establish Finance Director Position

Prior Year Comment:

The Town currently operates with a General Fund budget in excess of 50 million dollars. The structure of the Town's Finance Department consists of the Town Accountant, Town Treasurer, Tax Collector and Board of Assessors. The structure of the current financial operations of the Town is consistent with smaller municipalities within the Commonwealth.

The Financing Department as a whole is responsible for performing diverse and complex financial and accounting transactions for the Town.

The Town should consider structuring a Finance Department headed by a Finance Director. The Finance Director could also serve as the Town's Chief Financial Officer, who is responsible for establishing and maintaining sound financial policies and controls. This individual could also help work with the various Town boards and departments to create a cohesive financial control environment.

We recommend that the Town consider establishing the position of a finance director.

Status- Fiscal Year 2017 Audit:

The Town has taken our recommendation under consideration, and will monitor the need for a Finance Director Position.

3. Review Indirect Costs for Sewer Enterprise Fund

Prior Year Comment:

The Town maintains an enterprise fund to account for its sewer operations. As part of maintaining the enterprise fund the Town charges the enterprise fund for indirect costs of the Town (i.e. insurance, interdepartmental support). As part of the audit we review the indirect costs and have found them to be proper. However, we noted that the indirect costs do not include a cost for the retirement assessment. We recommend that Town review the indirect cost framework and determine if a cost for retirement should be included.

Status- Fiscal Year 2017 Audit:

The Town has taken our recommendation under advisement. We strongly encourage to review the indirect costs charged to the Sewer fund and to include retirement as part of indirect costs.