

***TOWN OF IPSWICH, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2016***



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To the Honorable Board of Selectmen  
Town of Ipswich, Massachusetts

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

The Town's written responses to the comments identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

*Powers & Sullivan LLC*

November 7, 2016

TOWN OF IPSWICH, MASSACHUSETTS

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JUNE 30, 2016

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## ***Previous Year Comment***

## **Voluntary Life Insurance Withholdings**

### Comment

The Town did not have a process to verify that the correct withholdings were taken for employees electing to participate in the voluntary life insurance plan. This is an optional plan where premiums are funded entirely by the employees. Since there is no Town contribution, the monthly invoices received from the provider should reconcile with the amounts withheld from the employees. This reconciliation had not been performed, and the Town was paying the amount on the invoice, regardless of what was being withheld from the employee. At June 30, 2015, the account had a deficit balance of approximately \$14,000. Adjustments made by the department subsequent to year end brought the account to a balance to approximately \$6,400. This deficit balances could indicate that the employee withholdings were not sufficient to cover the premiums charged or that the withholdings were being recorded to the wrong ledger account.

We recommended that the Town implement a policy to ensure that the proper premiums are withheld from employees for the voluntary life insurance plan and that the premiums are reconciled to the bills received from the provider.

### Status – Resolved

The Town has implemented a process for reconciling the premiums charged to the amounts withheld from employees participating in the voluntary life insurance plan on a go forward basis. The Town is continuing to work toward identifying the reasons for and correcting the past deficit balances.

## ***Current Year Comments***

## **Use of Town Credit Cards**

### Comment

The Town utilizes three credit cards to provide authorized Town employees access to online purchasing and disposition opportunities. The Town has implemented a credit card use policy which requires users to obtain receipts and documentation for all credit card purchases and to provide them to the Accounting/Finance Office for approval and payment.

In practice, all credit card receipts are collected by the Human Resources department where the credit card statements are reconciled to the receipts, assigned the proper appropriation account numbers and transferred to the Accounting/Finance Office for payment.

Delays in the receipt of proper documentation to support credit card charges have often caused the Town to incur late payment charges and interest charges on the credit cards.

### Recommendation

We recommend that the Town's credit card use policy specifically address the timeline for returning all necessary supporting documentation to facilitate the timely reconciliation of the credit card statement and the subsequent payment to eliminate late fees and interest charges. To streamline this process, the Town could also establish a schedule for retrieving credit charges on-line to reconcile the charges and obtain supporting documentation in advance of the statement due date.

### Management's Response

The Town updated and distributed the revised credit card policy on May 12, 2016. The revised credit card policy requires credit card users to submit receipts within 24 hours after purchasing services or goods to the HR Department. The HR Department retrieves the charges online, reconciles the charges to the statement and then delivers the documentation to the departments. This process ensures departments submit their schedule of payments to Accounting in a timely manner prior to the statement due date.

## **Develop Procedures for Recording the Disposal of Infrastructure Assets**

### Comment

The Town does not have a process for estimating the useful life of infrastructure assets and for reporting deletions of infrastructure assets once they have been replaced or reached the end of their useful life. As a result, the Town has not reported the deletion of any infrastructure assets since the implementation of GASB Statement #34. In compliance with GASB Statement #34, the Town is required to report all material capital assets at historical cost and to depreciate them over their useful lives. To accurately report capital assets, the Town must annually account for all capital asset additions and deletions. Since infrastructure assets cannot be specifically identified, the Town must establish a reasonable and consistent method for reporting deletions of infrastructure assets. This can be accomplished by establishing useful lives for each group of infrastructure assets consistent with the Town's system for maintaining each class of infrastructure (i.e. roads, sidewalks, water pipes, etc.)

### Recommendation

We recommend the Town establish a policy for estimating the useful lives of each class of infrastructure assets and for recording deletions of infrastructure assets as they reach the end of their useful lives.

### Management's Response

The Town will establish a policy for estimating the useful life of each class of infrastructure assets and for recording the disposal of infrastructure assets that have reached their useful life. The policy will be established and implemented in FY17.

## ***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.