TOWN OF WEST BOYLSTON, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2016

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To the Honorable Board of Selectmen
Town of West Boylston, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of West Boylston 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 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. 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 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.

A significant deficiency is a deficiency, or a 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. We did not identify any deficiencies in internal control that we consider to be significant deficiencies.

However, during our audit we became aware of other matters that are opportunities for strengthening internal controls and enhancing operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

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

Powers & Sullivan LLC

February 3, 2017

TOWN OF WEST BOYLSTON, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2016

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Comments

PRIVATE PURPOSE TRUST FUNDS

<u>Comment</u>

The Town has several scholarship accounts which are reported as private purpose trust funds in the financial statements. Currently, these accounts are reported in fund 82 as an expendable trust. For report purposes these funds have been reclassified to private purpose

<u>Recommendation</u>

We recommend the Town consider establishing a separate fund for these scholarship funds. This will facilitate report preparation and more accurately report the balances in the general ledger.

INTERNAL CONTROL PROCEDURES FOR FEDERAL AWARDS

<u>Comment</u>

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.

<u>Recommendation</u>

We recommend management follow the best practice for establishing and documenting their internal control system using the COSO Internal Control Framework.

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 n*et 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 understand the impact of this pronouncement and formulate plans to meet with your actuary so that they are able to provide the information you will need to properly prepare your 2018 financial statements.

NET PENSION LIABILITY - WBMLP

Comment

We recently became aware of an issue that will impact the WBMLP ability to report its net pension liability (NPL) for next year's audit.

There are three dates that are important for reporting the NPL:

- the valuation date, which is the date of the actuarial report,
- the measurement date, which is the date the NPL is determined and,
- the reporting date, which is the fiscal year end of the reporting entity

The importance of these dates is that the valuation date can be 30 months and one day earlier than an entities fiscal year end.

The valuation date that is currently available is January 1, 2014, which, when rolled forward, provides information for measurement dates through December 31, 2015. This measurement date was used by the Town to report its NPL at June 30, 2016, because it is less than 30 months and one day from January 1, 2014.

The problem arises as it relates to the WBMLP, which has a year end of December 31. For their December 31, 2015, report they used the Worcester Regional Retirement System 805 report dated December 31, 2014. However, they cannot use the report dated December 31, 2015, for next year's financial report because the WBMLP's fiscal year end, December 31, 2016, will be greater than 30 months and one day from the date of the Worcester Regional Retirement System actuarial date of January 1, 2014.

Our firm, along with others impacted by this matter, will be addressing this in the spring. However, it is important that your actuary be informed of this matter as it significantly complicates the ability of the WBMLP to accurately report its NPL.