

TOWN OF BARNSTABLE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2015



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To the Honorable Town Council
Town of Barnstable, Massachusetts

In planning and performing our audit of the financial statements of the Town of Barnstable, Massachusetts, as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Barnstable, 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.

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

Powers & Sullivan LLC

December 18, 2015

TOWN OF BARNSTABLE, MASSACHUSETTS

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***Prior Period Comments and
Recommendations***

Fixed Assets

Prior Comment

Since the implementation of GASB #34, the Town has compiled a detailed listing of all assets owned by the various departments of the Town. Maintaining this list requires the Town to account for additions, deletions, disposals and transfers of fixed assets. The Town has implemented procedures to account for annual fixed asset additions; however, procedures have not been implemented to properly account for deletions, disposals or transfers. In order to maintain a complete and accurate fixed asset listing the Town needs to develop procedures to facilitate accurate fixed asset reporting.

For several years we have recommended that the Town work to develop and implement policies and procedures to insure the proper accounting for all capital assets and that they also maintain a complete and accurate fixed asset listing by both function and location. One method for identifying non-infrastructure fixed asset disposals would be to annually confirm their existence with each department. To account for infrastructure disposals, it is often more practical to implement a systematic and rational method to estimate the assets replaced each year.

Current Status – *Unresolved*

Management of Student Activity Funds

Prior Comment

Massachusetts General Law (MGL), Chapter 71, Section 47 requires that school districts maintain student activity funds in accordance with guidelines issued by the Department of Elementary and Secondary Education (DESE).

In 2014 the DESE published a comprehensive manual titled Agreed-Upon Procedures and Audit Guidelines – Student Activity Funds. Within each section of the manual is the DESE Policy Guidance, the MGL Requirement and DESE's explanation of what type of policies, internal controls and audit procedures should be implemented in order to be in compliance with the law.

These guidelines can be found on the DESE website at the following address:

<http://www.doe.mass.edu/finance/accounting>

One of the MGL requirements is that an annual audit of the student activities be completed. The DESE manual provides guidance on the acceptable methods and timing of the audit. The Town has not conducted an audit in the manner required by the MGL and the DESE in recent years.

We recommended that the Town implement policies and procedures to comply with the MGL audit requirement and the guidelines established by DESE.

Current Status – *Unresolved*

Reconciliation of Budgeted Transfers

Prior Comment

The Town recorded budgeted trust fund transfers on the general ledger and did not make the corresponding cash transfers between bank accounts in a timely manner. As a result, the specific trust fund bank accounts did not have accurate balances and were not earning the proper amount of interest during the year.

We recommended the Town implement procedures to reconcile budgeted transfers between the bank accounts and general ledger throughout the year to ensure that all budget transfers are properly recorded.

Current Status – *Partially Resolved* The Town has implemented a process to verify that budgeted transfers are recorded between bank accounts in a timely manner. However, a process to reconcile the budgeted transfers between the bank balances and the general ledger has not been implemented.

***Current Year Comment and
Recommendation***

Informational Comment – 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.