

***TOWN OF GROVELAND, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2020***



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To the Honorable Board of Selectmen  
Town of Groveland, 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 Groveland, Massachusetts as of and for the year ended June 30, 2020, (except for the Groveland Municipal Light Department which is as of and for the year ending December 31, 2019) 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.

However, during our audit we became aware of other matters that we believe 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 Groveland, Massachusetts, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

March 23, 2021

TOWN OF GROVELAND, MASSACHUSETTS

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***CURRENT YEAR COMMENT***

## **BANK RECONCILIATIONS**

### Comment

One of the most effective internal controls to detect and correct errors in a timely manner is a timely process of reconciling bank balances to the cash book in the Treasurer's office and then comparing those reconciled Treasurer's cash book balances to the Town's general ledger. Performing these monthly reconciliations helps to ensure that errors are detected and corrected timely and that records are complete and accurate.

The Town maintains approximately 50 bank accounts, most of which are reconciled to the Town Treasurer's cash book on a timely basis. However, during our audit we found the following accounts were not reconciled.

- The online collections account with Century Bank has not been reconciled to the cashbook since 2018. At June 30, 2020 and 2019, there was an unreconciled difference of approximately \$148,000 and \$45,000, respectively, between the bank balance and the book balance maintained by the Treasurer.
- The vendor account with Eastern Bank has also not been reconciled to the cashbook. At June 30, 2020 and 2019, there was an unreconciled difference of approximately \$281,540 and \$323,844, respectively, between the bank balance and the book balance maintained by the Treasurer.

The Town has had significant turnover in key financial positions, and new members of the finance department are working to reconcile the unknown variances, which may be the result of timing differences and commingled funds with the municipal light department.

### Recommendation

We recommend that the Town continue to investigate the unknown variances and take the appropriate steps to ensure that the cashbook is accurately stated.

## **TAX TITLE**

### Comment

Properties placed into tax title in accordance with Massachusetts General Law (MGL) represent the Town's interest to ensure future payment for unpaid taxes. Therefore, it is in the Town's interest to convert properties acquired through tax title into cash and to ensure that the list of tax title is accurate and updated appropriately.

A review of Treasury records indicates that the balance in tax title receivables has increased to approximately \$650,000 at June 30, 2020, and properties listed in tax title have been there for many years.

### Recommendation

We recommend the Town investigate tax title and any foreclosure balances and establish procedures to ensure tax title and foreclosures are completed timely and appropriately. The Town may also want to consider working with an outside vendor to convert portions of these through sale or assignment, if deemed appropriate.

***CONTINUING MATTERS PREVIOUSLY REPORTED***

## **FRAUD RISK ASSESSMENT**

### Prior Comment

The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Town perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Town's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the Town that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Town, its environment, and its processes. The fraud risk assessment process should consider the Town's vulnerability to misappropriation of assets.

When conducting the self-assessment, questions such as the following can be considered:

- What individuals have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicated potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- What assets of the Town are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.

### Current Status

*Unresolved* - The Town has not yet developed or implemented a formal fraud risk assessment.

### Continuing Recommendation

We continue to recommend that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation. Department heads should provide information detailing any activities within their departments that may lend themselves to potential fraud, i.e. identification of

idle cash or collections that don't get turned over daily or instances where internal controls over Town assets are not in place or are not functioning as intended.

## **INTERNAL PROCEDURE MANUALS**

### Prior Comment

We noted that most departments do not maintain a formal internal procedure manual documenting day-to-day processing and controls. Since the Town is limited in the number of employees, the Town is at risk if critical tasks cannot be completed due to an extended absence.

### Current Status

*Unresolved* - The Town has begun the process of identifying various departmental internal procedures in anticipation of completing the manuals, but this process is still in process as of the date of this report.

### Continuing Recommendation

We recommend that an internal procedures manual be developed for each department. The document should be written in sufficient detail so that a person unfamiliar with the department's operations could complete the day-to-day critical tasks. Additionally, this document should be updated for any system changes. A master manual of all procedures should be maintained and stored in a secure, centralized location.

## **DOCUMENTATION OF INTERNAL CONTROLS**

### Prior 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 were 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).

Management is responsible for internal controls 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 must incorporate the 5 major components of internal control, while addressing the 17 principles of internal control that support the COSO framework. Refer to [www.coso.org](http://www.coso.org) for articles describing the 5 components and their 17 principles in detail.

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.

#### Current Status

*Unresolved* – The Town has not yet documented its internal control system over federal awards in compliance with the COSO Internal Control Framework. Management intends to complete this process during FY2021.

#### Continuing Recommendation

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

### **FRAMEWORK FOR ASSESSING AND IMPROVING CYBERSECURITY RISKS**

#### Comment

Throughout an organization's normal course of business comes the need to collect, transmit, and store extensive amounts of personal and financial information, in both paper and electronic form, relating to residents, vendors and employees. The use of technology has become a driver in helping organizations stay current and succeed. However, the sharing and compilation of this information lends itself to increasing the organization's vulnerability to either a cyber computer attack, ransomware attack, or a security breach, all are considered cybersecurity attacks.

Management must be aware of the risks associated with the collection of this information and be diligent in implementing the proper policies and procedures to help to expose these risks. While impossible for an organization to eliminate all risks associated with a cybersecurity attack, an organization can take a variety of steps to mitigate its exposure, satisfy its governance responsibilities and help to minimize the impact of an attack.

The first step in understanding an organization's risks and working to develop and implement an effective cybersecurity plan. An organization needs to conduct a risk assessment and understand where its greatest exposure and vulnerabilities lie. This can be completed internally if the organization has an experienced information technology team, or there are many organizations that employ experienced professionals in the information technology arena to assist in the risk assessment and implementation if desired.

Once a risk assessment is completed, the next step is to develop and implement a cybersecurity risk program, which needs to be continually reviewed and updated as technology changes. This response program should be tested to determine if the proper policies and procedures have been implemented to minimize the potential costs of a cyber-attack.

The obvious benefit to conducting a risk assessment is having the knowledge and an objective identification of the organization's areas where exposure to risks is more prevalent and allows for the development of a roadmap to address the remediation of these risks.

Some of the main areas of review that should be incorporated into the risk assessment are as follows:

- Electronic Records, Paper Records (Human Resource Records, Bank Statements, Payroll Records), Resident Data, Employee Data, Physical Security of hardware and software, Any Third Party or Vendor exposure, Password Security, E-Mail Security (Understanding the risks of malware and ransomware), Mobile phones and Portable Storage Devices, System Backup Procedures, Virus Protection Software, Data Encryption, Document Retention and Destruction Policies, Use of Unauthorized Software, Ongoing Employee Training.

Risk management is the ongoing process of identifying, assessing the risk, and developing a plan to address the risks. In order to manage their risk, organizations should understand what the likelihood is that an event will occur and assess the resulting impact of the event. This will assist the organization in developing their own acceptable level of risk tolerance and help to prioritize the areas in which internal controls should be strengthened.

#### Current Status

*Partially Resolved* – The Town has taken a pro-active approach to assess the Town's risk exposure to a cyber-attack and contracted with a third-party Information Technology (IT) support entity to perform a review of the Town's IT security. The Town is aware of potential cyber-security threats and implements best practices under current conditions and continues to monitor and test its systems to ensure that they are functioning as intended. We continue to recommend that policies and procedures be formally developed to mitigate any identified risks that fits within the organization's determined risk tolerance.