

TOWN OF BROOKLINE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2016

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To the Honorable Board of Selectmen
Town of Brookline, 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 Brookline, 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's internal control over financial reporting 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 several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding 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 Brookline, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties.

Powers + Sullivan, LLC

December 7, 2016

TOWN OF BROOKLINE, MASSACHUSETTS

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TABLE OF CONTENTS

	PAGE
<i>Prior Year Comments – Resolved</i>	1
Fixed Asset Capitalization Policy	2
<i>Prior Year Comments - Unresolved</i>	3
School Department Revolving Funds	4
Student Activity Funds Reimbursements	4
<i>Current Year Comments</i>	5
Reporting of Other Post-Employment Benefits Trust Fund	6
<i>Informational Comments</i>	7
Future Government Accounting Standards Board (GASB) Statements for Pensions and OPEB	8
Documentation of Internal Controls – Federal Grants	8

Prior Year Comments – Resolved

The following comments were resolved during the current fiscal year. Please see the June 30, 2015 Management Letter for the complete original comments.

Fixed Asset Capitalization Policy

Prior Year Comments - Unresolved

School Department Revolving Funds

Prior Year Comment

The District operates several revolving funds which are authorized under Massachusetts General Law (MGL) Chapter 71, Section 47. The purpose of these funds is to account for the collection of fees and donations to be used for athletics, summer school, and other educational related programs.

The District experiences inconsistencies within the programs that relate to custody of assets including ticket stock related to athletic events, the reconciliation of activities prior to turnover, and the waiving of fees due to financial need, as examples.

Establishing defined procedures reduces the likelihood that individual program directors will implement their own internal controls and approval process, which may not coincide with the policy of the District.

Current Status

The School Department recognized this issue and in the FY17 budget added one FTE for a special revenue funds manager, however currently unfunded, to address this issue. The School Department feels that adding a staff member to focus on revolving funds, grants, and student activities transactions, revenue, reconciliations, and filings will improve the support required. The School Committee is in the process of approving policies to address meal charges, student fees, fines and charges, and student financial assistance.

Student Activity Funds Reimbursements

Prior Year Comment

Through our review of student activity transactions we noted areas in which we believe procedures should be modified to better conform to best practices and strengthen internal controls. Currently, when a reimbursement request is sent the Treasurer's Office the transfer to replenish the checking account is immediately made based on a review of transactions clearing the bank statement by the Treasurer's Office. These reimbursements are then subsequently included on a vendor warrant and approved by the Town Administrator and the Comptroller.

We believe that that the warrant should be approved prior to the transfer taking place as this disbursement is similar to all other expenditure transactions for which a warrant is prepared, reviewed and authorized.

We also believe that in following the Department of Elementary and Secondary Education guidelines, a formal reimbursement request, which is accompanied by invoices or other support for disbursements previously made from the checking account must be provided before any reimbursements are made.

Current Status

The School Department, beginning in May of 2016, is providing detailed supporting documentation relating to funds dispersed when requesting reimbursement into the checking account. However, the funding of these reimbursements is still occurring prior to approval of the warrant. The School Committee is in the process of developing policies to be in compliance with MGL Chapter 71, Section 47.

Current Year Comments

Reporting of Other Post-Employment Benefits Trust Fund

Current Year Comment

Since the implementation of GASB Statement #45, the Town has been required to report the liability for their future other postemployment benefit liability (OPEB) in the basic financial statements. To help mitigate this growing liability, the Town voted to establish an other post-employment benefits trust fund in November of 2009. The Town has contributed to the trust each year since its inception and, as of June 30, 2016, has a total trust fund net position of approximately \$30 million. The Town voted to have these funds managed by the Town's Retirement System and as a result has removed the assets from the Town's general ledger and the Treasurer's cashbook.

Recommendation

We recommend that the Town establish an other post-employment benefits trust fund in the general ledger and that the Treasurer maintains and reconcile these accounts as part of the monthly cash reconciliation process. This would include recording contributions, realized and unrealized gains and net position of the trust funds.

Informational Comments

Future Government Accounting Standards Board (GASB) Statements for Pensions and OPEB

Current Year 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 2017 and will substantially impact the Town's 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 Pensions, which is required to be implemented in 2017.
- The GASB issued Statement #75, Accounting and Financial Postemployment Benefits Other Than Pensions, which is required to be implemented in 2018.

See below for a brief summary of these new standards:

- GASB #74 and #75 will substantially change the reporting for other postemployment benefit liabilities and expenses. Changes in other postemployment benefit liability will be immediately recognized as other postemployment benefit 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. Employers will report in their financial statements a net other postemployment benefit liability (asset) determined annually as of the measurement date. Net other postemployment benefit liability (asset) equals the total other postemployment benefit liability for the plan net of the plan net position. The other postemployment benefit liability is the actuarial present value of projected benefits attributed to past service. The plan 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. While these GASB's do not go into effect until 2017 and 2018, we wanted to make the Town aware of the impact that these new standards will have on financial statement reporting and disclosures.

Documentation of Internal Controls – Federal Grants

Current Year 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.

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.