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April 1, 2020

Board of Selectmen
Town of Pepperell
1 Main Street
Pepperell, MA 01463

In planning and performing our audit of the financial statements of the Town of Pepperell, Massachusetts as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Pepperell, Massachusetts' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Pepperell, Massachusetts' internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Pepperell, Massachusetts' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been 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 do not consider the following matters to be significant deficiencies or material weaknesses. However, they are matters we want to communicate to you.

Cash Reconciliation

During our review of the cash reconciliation procedures followed by the Town, for the fiscal year ended June 30, 2019, we found that the Town lagged behind its normally consistent and timely cash reconciliations due to a turnover in the accounting department. Following the December, 2018 resignation of its full-time Town Accountant, the Town was unable to seat a professionally qualified successor until May 1, 2019. During this transitional period, cash reconciliations between the Town Accountant's office and the Treasurer's office were not timely performed by part-time contractors and accounting department support staff.

During our review of the cash reconciliation procedures used by the Town, for the period ended June 30, 2019, we found that the process of reconciling cash between the Treasurer and Town Accountant was very difficult to perform due to the lack of integration between the Treasurer's cash book software and Accountant's cash control in the general ledger. For many years the Treasurer's Quicken cashbook software has been useful to the Treasurer's office in maintaining a portfolio of treasury cash balances and reconciling those individual balances with actual bank statements, but the process of reconciling from the Treasurer's monthly Quicken cashbook files to the Town Accountants ledger balance is very cumbersome.

During our preliminary audit planning work, for the fiscal year ended June 30, 2019, relating to the cash reconciliation process, we became aware of the cash reconciliation matters noted above. In conjunction with the Town Administrator, the Town Accountant and the Town Treasurer, we provided consulting assistance with the cash reconciliation work for several months for the 2019 fiscal year.

During the cash consulting assistance work that we performed, in conjunction with Town personnel, we were able to provide the Town Treasurer with a new Treasurer's cash book excel spreadsheet that makes the entire cash reconciliation process much easier to perform. This new cash book also is much more efficient for the Treasurer to perform the normal monthly reconciliation work and makes the process of reconciling between the Town Accountant and Treasurer much more efficient and streamlined. This new excel spreadsheet is currently being used by the Treasurer during the fiscal year ended June 30, 2020.

Cash Reconciliation and Unclaimed Checks

During our review of the Treasurer's cash reconciliation work, we found that a good job is being performed by the Treasurer in reconciling from the Treasurer's cashbook to the actual bank statement balances each month. However, during our review of the cash reconciliation procedures, we noticed that there are some old outstanding checks that have been carried on the outstanding check list that should be added to tailings or other steps should be followed relating to these outstanding checks, as noted below. Although the number of old outstanding checks is not large, there are standard procedures that should be followed by the Treasurer to get these checks off the outstanding check list. Some of the outstanding vendor checks may be in the name of active vendors. Therefore, it is possible that those outstanding checks were replaced by checks written on a subsequent warrant, but not voided in the accounting system.

Under the State's abandoned property law (Massachusetts General Laws Chapter 200A Section 9A), there are certain procedures that should be followed relating to old outstanding checks.

The normal procedures that must be followed by the Treasurer include reviewing the current checks that are included on the outstanding check lists. The next step is to determine whether the outstanding checks represent an amount still due to the employee/vendor or if they have been replaced by other checks. If the check has been replaced already, the outstanding check should be voided. If the employee/vendor still has a valid claim, the outstanding check should be voided and replaced. When the employee/vendor cannot be located, the procedures outlined in Massachusetts General Laws Chapter 200A Section 9A should be followed. Amendments to the law have changed the period of time that a check must be outstanding (one year provided the face of the check bears the statement "void if not cashed within 1 year from date of issue") before the abandoned property process may begin. The amended law also changed the required method for notifying the payees that checks remain unclaimed. A summary of the procedures is noted below.

1. All Town checks should include the verbiage "void if not cashed within 1 year from date of issue" on their face.
2. After a check has been outstanding for one year the abandoned property process should begin.
3. Annually, the Treasurer should prepare a list of checks that have been outstanding for one year (date of check, check number, payee and amount). The bank should be notified to stop payment on the checks and the checks should be removed from the outstanding check list. The Treasurer's cash book should be increased by the total of the list. In addition, the Treasurer should provide the Town Accountant with a copy of the list.
4. The Town Accountant should make a journal entry in the general ledger to increase the cash account and the unclaimed checks liability account.

5. The Treasurer should begin the “notification” process in accordance with M.G.L. Chapter 200A, Section 9A which states:

The Treasurer of the City, Town or District may post such notice using either of the following methods: (1) by mailing the notice by first class mail, postage prepaid, to the last known address of the beneficiary or person entitled thereto; or (2) if the city, district or town maintains an official website, by posting the notice conspicuously on the website for not less than 60 days. If the apparent owner fails to respond within 60 days after the mailing or posting of the notice, the treasurer shall cause a notice of the check to be published in a newspaper of general circulation, printed in English, in the county in which the city, town or district is located.

In the event that funds appearing to be owed to a corporation, organization, beneficiary or person is \$100 or more and the deadline as provided in the notice has passed and no claim for the funds has been made, the treasurer shall cause an additional notice to be published in a newspaper of general circulation in the county in which the city, district or town is located; provided, however, that the notice shall provide an extended deadline beyond which funds shall not be claimed and such deadline shall be at least 1 year from the date of publication of the notice.

After the notice/publication/waiting period requirements have been met, any checks that remain unclaimed may be closed to the general fund’s unreserved fund balance account.

Implementation of New Accounting Standards

In an effort to enhance the financial information available to readers of government financial statements, the Governmental Accounting Standards Board (GASB) is continually issuing new “statements” that affect what is required to be reported in governmental financial statements. For the fiscal year ended June 30, 2019, the GASB issued new statements that affect the Town’s reporting requirements.

As we noted in our prior year management letter, GASB Statement #74, “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*”, was effective for the Town’s fiscal year 2017 financial statements. GASB 74 requires additional disclosures and Required Supplementary Information schedules regarding the Town’s Other Post Employment Trust Fund. Most of the data necessary for the new reporting requirement is provided by an actuary.

The Town must have a biennial Other Post-Employment Benefits (OPEB) actuarial valuation. However, there are actuarial updates that will be needed annually.

GASB Statement #74, also, requires that the actuary have data that supports the discount rate utilized in the valuation. Otherwise, a much lower discount rate (the twenty year municipal bond rate) must be utilized as the discount rate. The lower the discount rate is, the higher the OPEB liability is.

The GASB also issued Statement #75, “Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions”, which is effective for the Town’s current fiscal year ended June 30, 2019 reporting period. GASB Statement #75 is a complex, two hundred and eighty-one page document that provides guidance on financial reporting for a variety of different types of OPEB plans.

One of the most significant changes, that is a result of GASB Statement #75, is the requirement to report the Town’s **entire** OPEB liability, beginning with the fiscal year 2018 financial statements. Prior to the issuance of GASB 75, the OPEB liability was being “**phased in**”, over a thirty year period (the prior “**phased in**” requirement was called the OPEB “**obligation**”). For the fiscal year ended June 30, 2019, the financial statements reflect the Net OPEB liability of \$12,727,702.

Implementation of New GASB Pronouncements

During fiscal year 2019, the following GASB pronouncements were implemented:

- The GASB issued Statement No. 83, *Certain Asset Retirement Obligations* which is required to be implemented for reporting periods beginning after June 15, 2018. The implementation of this statement did not impact the financial statements.
- The GASB issued Statement No. 84, *Fiduciary Activities* which is required to be implemented in reporting periods beginning after December 15, 2018. The implementation of this statement did not impact the financial statements.
- The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* which is required to be implemented in reporting periods beginning after June 15, 2018. The implementation of this statement did not impact the financial statements.

The following GASB pronouncements will be implemented in future fiscal years:

- The GASB issued Statement No. 87, *Leases* which is required to be implemented in reporting periods beginning after December 15, 2019.
- The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* which is required to be implemented in reporting periods beginning after December 15, 2019.
- The GASB issued Statement No. 90 *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61* which is required to be implemented in reporting periods beginning after December 15, 2018.
- The GASB issued Statement No. 91, *Conduit Debt Obligations* which is required to be implemented in reporting periods beginning after December 15, 2020.

Management is currently assessing the impact that the implementation of these pronouncements will have on the basic financial statements.

Fixed Assets

During our review of the Town's fixed assets that are recorded in the general ledger accounting system, in accordance with the GASB 34 (Governmental Accounting Standards Board) requirements, we found that typically the Town Accountant prepares a detailed excel spreadsheet of new fixed assets that are purchased during the year. This spreadsheet includes the required fixed asset information, such as general ledger account numbers, description of asset purchases, vendor name, date of purchase, information relating to Town Meeting Articles and other required information. In addition, each year the Town Accountant prepares an email that is sent to the department heads. In this email, information is requested relating to any disposal of assets or discontinued use of any major piece of equipment (valued over \$5,000).

In accordance with the requirements of GASB 34, capital assets with a purchase price of \$5,000 or more are added to the fixed asset list. These new capital assets are depreciated, using a half year convention, on the excel spreadsheet. A depreciation formula is used in the spreadsheet that calculates the proper depreciation amount. The general ledger accounting system is updated to include this information and is then reconciled with the fixed asset list.

As noted above in the comment relating to cash reconciliation, the current Town Accountant did not start in his position as Town Accountant for the Town until very close to the end of the fiscal year. Because the Town Accountant was hired so late in the fiscal year and because there were very significant cash reconciliation matters to work on, along with other very important accounting matters, he was not able to do all of the steps that are normally done relating to fixed assets. We recommend that the Town Accountant be sure to perform the normal procedures relating to fixed assets for the fiscal year ended June 30, 2020, which are noted above, and should also include keeping a folder with copies of invoices relating to fixed asset purchases and compare these purchases to the Town meeting votes.

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This communication is intended solely for the information and use of management, and those charged with governance, and others within the organization, and is not intended to be and should not be used by anyone other than those specified parties.

After you have had an opportunity to consider our comments and recommendations, we shall be pleased to discuss them further with you. We would like to thank you for the cooperation and courtesy extended to us during the course of the engagement.

Very Truly Yours,

Giusti, Hingston and Company

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