



**Powers &
Sullivan, LLC**
CPAs AND ADVISORS

TOWN OF BERKLEY, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2023



Powers & Sullivan, LLC
CPAs AND ADVISORS

100 Quannapowitt Parkway, Suite 101
Wakefield, Massachusetts 01880
T. 781.914.1700 | F. 781.914.1701
info@pas.cpa | www.pas.cpa

To the Honorable Board of Selectmen
Town of Berkley, 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 Berkley as of and for the year ended June 30, 2023 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 Berkley, Massachusetts and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

May 3, 2024

TOWN OF BERKLEY, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2023

TABLE OF CONTENTS

	PAGE
<i>Material Weaknesses</i>	<i>1</i>
Full Financial Statements Cannot be Completed	2
<i>Other Matters</i>	<i>3</i>
Formalize Cash Handling Policies and Procedures	4
Reconciliations of Receivable Accounts to the General Ledger	4
Fraud Risk Assessment	4
Internal Policies and Procedures Manual	5
ARPA State and Local Fiscal Recovery Funds	6

MATERIAL WEAKNESSES

OVERVIEW

The objective of a system of internal control is to safeguard the assets of the Town and provide assurance that transactions are executed in accordance with management's authorization and recorded properly in the Town's general ledger and subsidiary ledgers. The omission of one or more elements of internal control can compromise the Town's ability to obtain these objectives.

The objective of internal control over the preparation of financial statements is to ensure the internal and external reports are accurate and can be produced in a timely manner. Over the last several years the Town did not demonstrate the ability to accomplish this task.

We have concluded that the deficiencies noted below represent significant deficiencies in the Town's system of internal control under standards established by the American Institute of Certified Public Accountants.

These deficiencies constitute being classified as material weaknesses' because they represent significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Town's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

FULL FINANCIAL STATEMENTS CANNOT BE COMPLETED

Prior Year Comment

The Town's current audited financial statements only include fund based financial statements which is not in accordance with Generally Accepted Accounting Principles (GAAP). The accounting standards require entity-wide financial statements that report all long-term assets and liabilities of the Town along with the short-term assets and liabilities reported on the fund based financial statements. The major factors is that the Town does not maintain fixed asset records in accordance with GAAP. If this matter is addressed the Town will be able produce GAAP compliant financial Statements.

Current Status

Unresolved. The Town has not established a fixed asset capitalization policy and has not compiled records of fixed assets.

Continuing Recommendation

We continue to recommend that the Town establish a Fixed Asset capitalization policy in accordance with GAAP and determine how to best compile the actual records. This will require a current inventory of all capital assets of the Town in compliance with the policy established.

OTHER MATTERS

FORMALIZE CASH HANDLING POLICIES AND PROCEDURES

Prior Year Comment

The Town has a decentralized cash collection process where receipts are collected at various Town departments, then turned over to the Treasurer/Collector's office for deposit, then turned over to the Town Accountant to be recorded on the general ledger. Town departments and the Treasurer/Collectors office are informally instructed to turn over funds on a weekly basis, at a minimum. While the majority of Town departments adhere to this directive, we note that the Town does not currently have a formal cash handling policy in place. A formal cash handling policy would provide guidance for departments and would give the Town leverage in enforcing the requirement for timely turnover of cash collections. A formal cash handling policy could have the added benefit of defining the level of documentation required to support the cash collections, including the use of receipt books. This could improve efficiencies over processing turnovers

Current Status

Resolved. The Town revised their financial policies in October 2023, which included formalizing their cash handling policies and procedures.

RECONCILIATIONS OF RECEIVABLE ACCOUNTS TO THE GENERAL LEDGER

Prior Year Comment

The Town has not fully reconciled the detailed receivable balances to the general ledger during fiscal year 2022. A lack of regular reconciliations poses a significant risk that errors or irregularities may occur and not be detected and corrected within a timely manner by Town employees. It also impairs the Town's ability to produce and analyze financial data since information has not been recorded in the Town's general ledger timely.

Current Status

Unresolved. The Town has not fully reconciled the detailed receivable balances to the general ledger during fiscal year 2023.

Continuing Recommendation

We continue to recommend that the Town implement procedures to ensure that all receivable activity is reported to the Accounting Office and recorded in the Town's ledgers timely and reconciliations of receivable balances between detailed records and the general ledger are performed monthly.

FRAUD RISK ASSESSMENT

Prior Year 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 implemented a fraud risk assessment program.

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 POLICIES AND PROCEDURES MANUAL

Prior Year 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 revised their financial policies in October 2023, which included updating some of the Town's procedures. However, procedure manuals documenting day-to-day critical tasks for the various departments have not been completed.

Recommendation

We continue to 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.

ARPA State and Local Fiscal Recovery Funds

Current Year Comment

The Town has received or has available ARPA Coronavirus State and Local Fiscal Recovery Funds (SLFRF) either directly from the US Treasury or passed through the County. At June 30, 2023 the Town still has significant funds available to spend. These funds were provided to local governments to respond to the COVID-19 public health emergency and can be used on many qualifying activities.

The ARPA funds can be used to cover costs incurred during the period beginning on March 3, 2021, and ending on December 31, 2024, pursuant to the Final Rule issued by the U.S Treasury. In accordance with the Final Rule, the Town can obligate funds for projects with contracts in place by December 31, 2024, and liquidate those funds by December 31, 2026. During this two-year window the Town will not be able to incur new obligations if planned projects do not take place, or projects come in under budget. If the Town's ARPA projects extend past the December 31, 2024, timeframe, there is an increased risk that unspent funds will need to be returned to the U.S. Treasury.

As the Town received under \$10 million from the US Treasury, the funding can all be classified under the revenue replacement expenditure category which provides extensive options for the Town. Funds available through the County must be for allowable expenditures approved by the County and must meet specific expenditure guidelines.

Recommendation

We recommend the Town monitor its spending plan for ARPA funds and work to spend all funds by the December 31, 2024, deadline if possible. Spending by this time frame ensures no funds will be returned to the US Treasury or the County's allocation could be reduced. Proper planning can ensure the Town will receive the full benefit of the additional grant funding received from the pandemic.