

TOWN OF HOLBROOK, MASSACHUSETTS

REPORTS ON FEDERAL AWARD PROGRAMS

YEAR ENDED JUNE 30, 2019

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Independent Auditor's Report

To the Honorable Board of Selectmen
Town of Holbrook, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Holbrook, Massachusetts, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Holbrook, Massachusetts' basic financial statements, and have issued our report thereon dated February 13, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Holbrook, Massachusetts' internal control over financial reporting (internal control) to determine the 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 of Holbrook, Massachusetts' internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Holbrook, Massachusetts' internal control.

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-01 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Holbrook, Massachusetts' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Findings

The Town of Holbrook's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town of Holbrook's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Powers & Sullivan LLC

February 13, 2020



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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditor's Report

To the Honorable Board of Selectmen
Town of Holbrook, Massachusetts

Report on Compliance for Each Major Federal Program

We have audited the Town of Holbrook, Massachusetts' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Town of Holbrook, Massachusetts' major federal programs for the year ended June 30, 2019. The Town of Holbrook, Massachusetts' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Holbrook, Massachusetts' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Holbrook, Massachusetts' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of Holbrook, Massachusetts' compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Holbrook, Massachusetts complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the Town of Holbrook, Massachusetts, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Holbrook, Massachusetts' internal control over

compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Holbrook, Massachusetts' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Holbrook, Massachusetts, as of the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Holbrook, Massachusetts's basic financial statements. We issued our report thereon dated February 13, 2020 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Powers & Sullivan LLC

February 13, 2020

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Amount Passed Through to Sub-Recipients	Expenditures
CHILD NUTRITION CLUSTER:				
U.S. DEPARTMENT OF AGRICULTURE:				
<u>Passed through Massachusetts Department of Elementary and Secondary Education:</u>				
Non-Cash Assistance (Commodities):				
National School Lunch Program.....	10.555	DOENUT201711SL62	\$ -	\$ 39,002
Cash Assistance:				
National School Lunch Program.....	10.555	DOENUT201712SL148	-	243,144
Total National School Lunch Program.....			-	282,146
Cash Assistance:				
School Breakfast Program.....	10.553	DOENUT201712SL148	-	44,509
TOTAL CHILD NUTRITION CLUSTER.....			-	326,655
SPECIAL EDUCATION CLUSTER:				
U.S. DEPARTMENT OF EDUCATION:				
<u>Passed through Massachusetts Department of Elementary and Secondary Education:</u>				
Special Education Grants to States.....	84.027	240-241267-2019-0133	-	360,673
Special Education Grants to States.....	84.027	240-180-5-0219-P	-	5,541
Total Special Education Grants to States.....			-	366,214
<u>Passed through Massachusetts Department of Early Education and Care:</u>				
Special Education Preschool Grants.....	84.173	262-241272-2019-0133	-	3,938
Special Education Preschool Grants.....	84.173	26218HOLBROOKPUBPAY1	-	6
Total Special Education Preschool Grants.....			-	3,944
TOTAL SPECIAL EDUCATION CLUSTER.....			-	370,158
PASS-THROUGH PROGRAMS:				
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT:				
<u>Passed through Massachusetts Department of Housing and Community Development:</u>				
Community Development Block Grants/Entitlement Grants.....	14.218	CDBG NOFA	-	112,951
U.S. DEPARTMENT OF TRANSPORTATION:				
<u>Passed through Massachusetts Executive Office of Public Safety:</u>				
State and Community Highway Safety.....	20.600	PD OT ENF	-	8,903
U.S. DEPARTMENT OF EDUCATION:				
<u>Passed through Massachusetts Department of Elementary and Secondary Education:</u>				
Title I Grants to Local Educational Agencies.....	84.010	305-215766-2019-0133	-	166,896
Title I Grants to Local Educational Agencies.....	84.010	305-048087-2018-0219	-	29,316
Title I Grants to Local Educational Agencies.....	84.010	305-128985-2017-0133	-	9,130
Total Title I Grants to Local Educational Agencies.....			-	205,342
Improving Teacher Quality State Grants.....	84.367	140-215765-2019-0133	-	33,861
Improving Teacher Quality State Grants.....	84.367	140-062855-2018-0219	-	18,662
Improving Teacher Quality State Grants.....	84.367	140-128986-2017-0133	-	4,016
Total Improving Teacher Quality State Grants.....			-	56,539
Student Support and Academic Enrichment Program.....	84.424	309-215767-2019-0133	-	2,827
Total U.S. Department of Education.....			-	264,708
U.S. DEPARTMENT OF HOMELAND SECURITY:				
<u>Passed through Metropolitan Area Planning Council:</u>				
Homeland Security Grant Program.....	97.067	Not Available	-	3,593
<u>Passed through Massachusetts Emergency Management Agency:</u>				
Disaster Grants - Public Assistance.....	97.036	CTFEMA4372HOLBR00150	-	17,267
Emergency Management Performance Grant.....	97.042	FY19EMPG1800000HOLBR	-	3,000
Assistance to Firefighters Grant.....	97.044	Not Available	-	22,553
Total U.S. Department of Homeland Security.....			-	46,413
TOTAL.....			\$ -	\$ 1,129,788

See notes to schedule of expenditures of federal awards.

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the Town of Holbrook, Massachusetts under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Town of Holbrook, Massachusetts, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town of Holbrook, Massachusetts.

Note 2 – Summary of Significant Accounting Policies

The accounting and reporting policies of the Town of Holbrook, Massachusetts are set forth below:

- (a) Basis of Accounting – The accompanying Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting. Accordingly, expenditures are recognized when the liability is incurred. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (b) Cash Assistance – School Breakfast and Lunch Program – Program expenditures represent federal reimbursement for meals provided during the year.
- (c) Non-Cash Assistance (Commodities) – School Lunch Program – Program expenditures represent the value of donated foods received during the year.
- (d) Disaster Grants have been recorded the year the grant was approved.
- (e) The Town of Holbrook, Massachusetts has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified on the basic financial statements of the Town of Holbrook, Massachusetts.
2. One significant deficiency relating to the audit of the basic financial statements is reported in the Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the Town of Holbrook, Massachusetts, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award program are reported in the Report on Compliance for Each Major Federal Program or the Report on Internal Control over Compliance.
5. The auditor's report on compliance for the major federal award programs for the Town of Holbrook, Massachusetts, expresses an unmodified opinion.
6. There were no audit findings relative to the major federal award programs for the Town of Holbrook, Massachusetts.
7. The program tested as a major grant is the Special Education Cluster.
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. The Town of Holbrook, Massachusetts was determined to be a low-risk auditee.

B. Findings-Financial Statements Audit**Finding 2020-01** Significant Deficiency – Internal Controls in the Treasurer/Collector's Office

Condition and Criteria – For several years, the Town's management letters have included comments related to internal controls in the Treasurer/Collectors office that have not been acted upon. We consider the failure to act on the prior comments for a number of years, combined with an absence of a rational explanation, to constitute a significant deficiency in the Town's internal controls.

Context – The Treasurer/Collector's office has continually experienced delays in reporting financial activity to the Town Accountant, which inhibits the Town's ability to produce accurate financial information and impedes management's ability to assess the financial position of the Town. The office frequently requires the assistance of outside consultants to get caught up on reconciling cash accounts to the general ledger. Additionally, the office has not acted to resolve old uncollected balances, credit receivable balances, old cash reconciling items, and to move forward with properties listed as tax liens. There is also concern that some of the balances may be inaccurate, which would make the process of moving forward with collecting the balances more difficult. The office has experienced staff turnover and relies heavily on the Treasurer/Collector. The over-reliance on one individual may be contributing to the inability to address the deficiencies noted above.

Effect – Failure to address the deficiencies of the office over several years increases the Town’s risk that errors in the Town’s records exist and have not been identified and the continued delay in recording transactions and reporting financial activity to the Town Accountant has inhibited the Town’s ability to produce accurate and timely financial information.

Cause – The fact that these comments have been noted in previous years and not addressed can be construed as indication that management either: does not have the competency to meet the roles and responsibilities of the position; lacks the motivation to address the problem; or lacks adequate staffing or lacks the tools needed to accomplish the necessary tasks.

Recommendation – We recommend the Town implement a plan to address the internal control weaknesses in the Treasurer/Collector’s office noted above.

Views of responsible officials and planned corrective actions – The Town is committed to resolving the Internal Control issues within the Treasurer/Collector’s Office. The Town has hired a consultant to perform an internal review of the Treasurer/Collector’s Office operations. This review will provide the Town with clearly defined roles and responsibilities within the office. The Town has also contracted to have a risk assessment performed which will include an assessment of risks within the Treasurer/Collector’s Office. For additional detail on the Town’s efforts to resolve this matter please refer to the detailed side letter provided by the Treasurer/Collector.

C. Findings and Questioned Costs-Major Federal Award Programs

None

D. Summary Schedule of Prior Audit Findings

None