

TOWN OF MARBLEHEAD, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2018



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To the Honorable Board of Selectmen
Town of Marblehead, Massachusetts

In planning and performing our audit of the financial statements of the Town of Marblehead, Massachusetts, as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Marblehead, Massachusetts' internal control over financial reporting (internal control) as a basis for designing 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'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 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. As described in the memorandum that accompanies this letter, we identified certain deficiencies in internal control regarding the Town's payment of special education tuition bills that we consider to be a material weakness.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestions with various Town personnel and will be pleased to discuss it in further detail at your convenience, to perform any additional study of the matter, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management of the Town of Marblehead, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties.

Powers & Sullivan LLC

December 19, 2018

TOWN OF MARBLEHEAD, MASSACHUSETTS

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Special Education Tuition Bills

Material Weakness

The School Department is responsible for operating within the budget appropriated at Town Meeting. The School Department was aware of a pending Fiscal 2018 deficit well before June 30, 2018 and did not take steps to properly address the deficit during Fiscal 2018. School management intentionally withheld submitting \$592,783 in special education tuition invoices during Fiscal 2018 with the intent to charge the expenditures to Fiscal 2019, even though they knew they were Fiscal 2018 expenditures. This was an intentional violation of the compliance with Massachusetts General Law Chapter 44, Section 31. School management was aware that they can only incur expenditures up to their lawfully approved budget.

The School entered all these invoices into the Town's accounting system directly into Fiscal 2019 and completed the schedule of bills payable with July dates.

To prevent a department from charging an expenditure to the incorrect fiscal year, the Town Accountant's Office is responsible for reviewing all charges and rejecting all expenditures that relate to the prior fiscal year. Massachusetts finance laws and regulations have a process to approve any prior year bills through a Town Meeting vote. This process should have been done for the entire \$592,783. Instead, these invoices were paid and charged to Fiscal 2019, without an appropriation, even though they were aware they related to the prior fiscal year.

Both the School department and the Accounting department had a significant breakdown in internal controls that have had a serious impact on both Fiscal Years 2018 and 2019. This constitutes a material weakness in the Town's system of internal controls.

Recommendation

We recommend that the Town and School implement procedures to strengthen controls to provide reasonable assurances that expenditures are properly reported in the financial records in the proper periods. This would include a process for the School department to address any future operating deficits by implementing a budgetary plan to reduce expenditures to amounts available to them through the general fund appropriation or other funding sources.

The Town has contacted the Commonwealth of Massachusetts Bureau of Accounts that provides oversight on financial issues related to all cities and towns. The Bureau of Accounts has provided the Town with options for addressing the fiscal year 2018 budget deficit. We recommend the Town follow one of the options provided by the Bureau of Accounts.