Reaffirmed at the meeting of the Select Board on November 20, 2023. The Select Board voted to approve and accept COSO Internal Control Framework, without any changes.

SELECT BOARD

James Kilcoyne

James J. Kilcoyne, Chair

Lynne E. Fidler

Lynne E. Fidler, Vice Chair

Stephen R. Darcy, Clerk

TOWN OFMARSHFIELD

COSO INTERNAL CONTROL FRAMEWORK (COMMITTEE OF SPONSORING ORGANIZATIONS)

BOARD OF SELECTMEN VOTE ON 5-24-21

COSO Internal Control Framework

The MARSHFIELD has adopted the internal control framework promulgated by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO is sponsored by, among other organizations, the American Institute of Certified Public Accountants and the Institute of Internal Auditors.

COSO broadly defines internal control as a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

1. Effectiveness and efficiency of operations
2. Reliability of financial reporting
3. Compliance with applicable laws and regulations

Five Interrelated Components

The COSO internal control framework identified five interrelated components:

Control Environment

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.

Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors.

Risk Assessment

Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives.

Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

Information and Communication

Pertinent information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the business. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to informed business decision-making and external reporting.

Effective communication also must occur in a broader sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream.

There also needs to be effective communication with external parties, such as customers, suppliers, regulators and shareholders.

Monitoring
Internal control systems need to be monitored – a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two.

Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures.

Summary of COSO Components and Principles of Internal Control

Components of Internal Control	Principles
A. Control Environment	1. Demonstrate Commitment to Integrity and Ethical Values 2. Exercise Oversight Responsibility 3. Establish Structure, Responsibility and Authority 4. Demonstrate Commitment to Competence 5. Enforce Accountability
B. Risk Assessment	6. Define Objectives and Risk Tolerances 7. Identify, Analyze, and Respond to Risks 8. Assess Fraud Risk 9. Identify, Analyze, and Respond to Change
C. Control Activities	10. Design Control Activities 11. Design Activities for the Information System 12. Implement Control Activities
D. Information and Communication	13. Use Quality Information 14. Communicate Internally 15. Communicate Externally
E. Monitoring	16. Perform Monitoring Activities 17. Evaluate Issues and Remediate Deficiencies

The following describes characteristics of internal control relating to each of the five components of internal control that should reasonably ensure compliance with the requirements of Federal statutes, regulations, and the terms and conditions of Federal awards. (The bracketed information highlights a relationship to one of the COSO principles.).

A. **Control Environment.** The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.

- There is a sense of conducting operations ethically, as evidenced by a code of conduct or other verbal or written directive. [Principle 1]

Recommended Code of Conduct for Public Employees

The Office of the Inspector General (OIG) has developed the attached Code of Conduct as a supplement to M.G.L. c.268A, the conflict of interest law. The Code sets standards of conduct for public employees engaged in official business relationships. The OIG recommends that local jurisdictions adopt the Code to preserve the integrity of business relationships and to maintain the highest level of public confidence in the impartial operation of government.

INTRODUCTION

The Massachusetts conflict of interest law, Chapter 268A of the Massachusetts General Laws, prohibits public employees from soliciting or accepting gratuities of substantial value for or because of their official duties. The law covers all state, county, and municipal employees, as well as employees of independent state authorities, districts, and commissions. The State Ethics Commission, which enforces the conflict of interest law, is authorized to impose civil fines of up to $2,000 for each violation of the law and to recover damages. The law also carries criminal penalties, including fines and terms of imprisonment.

The conflict of interest law encourages public agencies to establish and enforce standards of conduct. This Code of Conduct is designed to supplement the conflict of interest law by setting standards of conduct for all employees with respect to relationships with individuals and entities with whom the public sector conducts official business. The purpose of this Code is to preserve the integrity of these relationships and to maintain the highest level of public confidence in the impartial operation of government.

This Code prohibits certain activities that could result in a conflict of interest or create the appearance of a conflict of interest. Exceptions to the Code's prohibitions are limited to specific circumstances in which an overriding public interest is served by the exception or in which the relationship in question is primarily personal.

The Massachusetts Office of the Inspector General has developed this Code for use by public agencies throughout the Commonwealth. Five major areas are addressed by this Code: gifts and gratuities, reimbursement of travel expenses, honoraria, testimonial and retirement functions, and groundbreaking and dedication ceremonies. This Code is not all-inclusive. It does not regulate every conceivable situation in which a public employee may be offered gifts or other items of monetary value. It does not address other activities prohibited by the conflict of interest law, such as bribery, participation in official matters affecting one's financial interests or those of one's family or business, and misuse of one's official position. For information or advice on matters not covered by this Code, guidance may be sought from local counsel and from the State Ethics Commission. As used in this Code, "we" and "our" refer to the agency adopting this Code; "you" refers to the agency's employees or members.

revised 8/98

CODE OF CONDUCT

I. GIFTS AND GRATUITIES

A. General Restrictions

You may not solicit or accept, directly or indirectly, any gift, gratuity, favor, entertainment, loan, or other item of monetary value from a person, public agency, or private entity you know or have reason to know:

1. Has had, has, or is seeking to obtain contractual or other business or financial relations with us;

2. Conducts or is seeking to conduct business or other activities that are regulated or monitored by us; or

3. Has interests that may be or may give the reasonable impression of being substantially affected by the performance or nonperformance of your official duties.

Example: You may not accept a restaurant lunch from a consultant employed by a firm under contract to us.

Example: You may not accept a Christmas gift from a vendor seeking business with us.

Example: You may not accept a ticket to a sporting event from an individual whose business we regulate.

B. Exceptions

1. You may accept gifts in cases involving a family or personal relationship when the circumstances make clear that the relationship is the motivation for the gift.

2. You may accept nonalcoholic beverages, such as coffee or tea, from public or private entities.

3. You may attend and accept food and beverages at seasonal or celebratory functions, such as Christmas, birthday, or retirement parties, hosted by public entities.

4. You may accept food and beverages in connection with attendance at working meetings held in the office of a public entity.

5. You may accept food and beverages in connection with attendance at widely attended meetings or gatherings held by a private trade or professional association in an office or other business setting when you are attending the meeting or gathering in your official capacity for informational, educational, or other similar purposes.

Example: You may accept a modest meal served in a restaurant function room in conjunction with an informational, widely attended meeting hosted by a professional association.

Example: You may not accept food and beverages at a hospitality suite hosted by one or more private firms.

6. You may accept loans from banks or other financial institutions to finance proper and usual customer activities, such as home mortgage loans and automobile loans. If the bank or financial institution is an entity with which you have or might reasonably expect to have dealings in your official capacity, you must be able to demonstrate that the loan has been granted on current customary terms; you must also provide written disclosure of the loan to your supervisor. The previous sentence does not apply if your duties or anticipated duties with respect to the bank are limited to obtaining third-party records.

7. You may accept unsolicited advertising or promotional materials of nominal value.

Example: You may accept an unsolicited, inexpensive promotional pen or calendar.

Example: You may not accept a leather portfolio.

II. REIMBURSEMENT OF TRAVEL EXPENSES

A. General Restrictions

You may not accept reimbursement for travel expenses from a person or entity who falls within the scope of Section IA, above.

B. Exceptions

1. If you deliver a speech or participate in a conference, we may elect to accept reimbursement from the sponsor of the speech or conference for your actual and necessary travel expenses. In this case, we -- not the sponsor -- will pay or reimburse you in accordance with our travel policy, and bill the sponsor for the appropriate amount.

2. If we determine that employee travel is a necessary component of a vendor evaluation process, we may elect to require competing vendors to reimburse us for actual and necessary travel expenses incurred in connection with the evaluation. In this case, we -- not the vendors -- will pay or reimburse you in accordance with our travel policy. The publicly advertised request for proposals or invitation for bids must set forth our procedures for calculating and billing all competing vendors for the appropriate amounts.

III. HONORARIA

A. General Restrictions

You may not accept honoraria or other monetary compensation from an outside source in return for a public appearance, speech, lecture, publication, or discussion unless all of the following conditions are met:

1. Preparation or delivery of the public appearance, speech, lecture, publication, or discussion is not part of your official duties;

2. Neither the sponsor nor the source, if different, of the honorarium is a person or entity who falls within the scope of Section IA, above;

3. You do not use office supplies or facilities not available to the general public in the preparation or delivery of the public appearance, speech, lecture, publication, or discussion; and

4. You do not take office time for the preparation or delivery of the public appearance, speech, lecture, publication, or discussion.

Example: You may accept an honorarium for a magazine article prepared outside working hours.

Example: You may not accept an honorarium for delivering a speech in your official capacity.

B. Exceptions

1. You may accept awards, certificates, or other items of nominal value given for a speech, participation in a conference, or a public contribution or achievement.

Example: You may accept a framed certificate of appreciation.

Example: You may not accept an engraved pewter bowl.

IV. TESTIMONIAL AND RETIREMENT FUNCTIONS

A. General Restrictions*

*[Note: M.G.L. c.268, §9A prohibits anyone from selling, offering for sale, or accepting payment for tickets to, or soliciting or accepting contributions for, testimonial dinners or functions held on behalf of anyone employed by a law enforcement, regulatory, or investigatory agency of the Commonwealth or any political subdivision of the Commonwealth. The law carries a maximum fine of $500.]

1. You may not solicit contributions, sell tickets, or otherwise seek or accept payment for a testimonial or retirement function, or any function having a similar purpose, held for yourself or any other employee, if the contributor is a person or entity who falls within the scope of Section IA, above, and the admission price or payment exceeds the actual per-person cost of food and beverages served at the function.

   Example: You may not offer or sell tickets to a testimonial dinner to contractors doing business with us if the ticket price includes a contribution toward a gift.

2. You may not accept food, beverages, or gifts at any testimonial or retirement function, or any function having a similar purpose, if such food, beverages, or gifts are paid for or subsidized by a person or entity who falls within the scope of Section IA, above.

   Example: You may not accept a free admission to a retirement luncheon if the cost of your admission is paid, directly or indirectly, by one or more contractors doing business with us.

   Example: You may not accept a retirement gift if the gift was paid for with the proceeds of tickets purchased by contractors doing business with us.

B. Exceptions

None.

V. GROUNDBREAKING AND DEDICATION CEREMONIES

A. General Restrictions

1. You may not request or require any person or entity who falls within the scope of Section IA, above, to sponsor or contribute to any groundbreaking ceremony, dedication ceremony, or similar occasion involving a public works project. If we determine that a groundbreaking or dedication ceremony for a public works project serves a legitimate public purpose, we may elect to fund such a ceremony. We may plan and pay for the ceremony. Alternatively, we may include the ceremony-related services in the construction bid specifications for the public works project.

2. You may not accept food, beverages, or gifts at any groundbreaking ceremony, dedication ceremony, or similar occasion involving a public works project if the food, beverages, or gifts are paid for or subsidized by a person or entity who falls within the scope of Section IA, above.

B. Exceptions

None.

- Management makes evident its support of adequate information and reporting systems. [Principle 1]

  Management regards the accounting function as a means for monitoring and exercising control over the entity's various activities and sets the tone that high-quality and transparent financial reporting is expected. A disciplined, objective process, including discussions with staff, boards and external auditors, is used in selecting accounting principles and developing estimates. Management also uses this process to assess internal controls and correct any known weaknesses in internal controls on a timely basis.

- There is a governing board or equivalent that is responsible for receiving all reports and communications from the auditor, and ensuring that audit findings and recommendations are adequately addressed, and they fulfill those responsibilities. [Principle 2]

The governing board is responsible for receiving all reports and communications from the auditor, and ensuring that audit findings and recommendations are adequately addressed, and they fulfill those responsibilities. As findings and recommendations are brought forward through the audit process, the appropriate management personnel are required to complete corrective action plans to address them. The governing board provides the necessary follow-up to ensure that the corrective action is implemented to resolve the findings and recommendations.

- Key managers' responsibilities are clearly defined. [Principle 3].

Job descriptions have been developed that clearly define key manager's roles and responsibilities. The job descriptions are reviewed on an annual basis and updated as necessary to address any changes to the organizational and internal control structures that are identified.

- Key managers have adequate knowledge and experience to discharge their responsibilities. [Principle 4]

Employees have the competence and training necessary for their assigned level of responsibility or the nature and complexity of the entity's activities. Before hiring new employees, job descriptions are evaluated and compared to potential employees' knowledge, skills, abilities and credentials before making hiring decisions, especially for key positions. Employees are subject to periodic evaluations of job performance and competencies.

- Management's commitment to competence ensures that staff receives adequate training to perform their duties. [Principle 4]

Appropriate human resource policies ensure that employees who are hired have the necessary knowledge, skills, and experience to perform their function within the institution. The employees receive appropriate training and career development opportunities. The organizational structure is set up to provide for appropriate delegation of responsibility and authority as well as adequate supervision for operating activities at all levels.

Staff meetings and annual fraud risk assessments are used to regularly educate and communicate to management and employees the importance of internal controls and to raise their level of understanding of existing controls and any changes that have been implemented. Key management also regularly attends professional development conferences and seminars to further enhance competency and their ability to perform their duties.

- Staff is knowledgeable about compliance requirements and is given responsibility to communicate all instances of noncompliance to management. [Principle 4]

Staff regularly attends professional development conferences and seminars to stay current on compliance requirements that affect the entity. These conferences and seminars are facilitated through professional organizations such as the Mass Association of Accountant's and Auditors, Mass Treasurer/Collector's Association, Mass Association of School Business Officials, Mass Department of Revenue, Mass Department of Elementary and Secondary Education. Furthermore, staff is encouraged to report all instances of noncompliance to management.

- Management initiates positive responsiveness to prior compliance and control findings. [Principle 4]

In the event that a compliance or control finding is identified, management will immediately analyze and evaluate the conditions and criteria that caused the findings. With the understanding gained from this process, a corrective action plan will then be developed and implemented to correct the compliance and control findings that have been identified. Management will reevaluate the results of the corrective actions that were taken to ensure that the findings have been resolved. If further actions are deemed necessary, further analysis, evaluation and corrective actions will take place until the matter has been satisfactorily resolved.

- Management demonstrates respect for and adherence to program compliance requirements. [Principle 5]

  Management, through its attitudes and actions, demonstrates character, integrity and ethical values, which set the standard of conduct for compliance with program requirements for the entity as a whole. Management and staff are made familiar with the policies and practices with regards to ethics and accepted business practices through a code of conduct, governance guidelines and management and staff manuals. Management also follows ethical guidelines in dealing with external parties, including suppliers, contributors, creditors and insurers.

B. **Risk Assessment.** Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.

- Program managers and staff understand and have identified key compliance objectives and risk tolerances. [Principle 6]

Key compliance objectives and risk tolerances for Federal awards:

Compliance Objectives	Risk Tolerance	Likelihood of Non Compliance	Significance of Non Compliance	Control Effectiveness	Residual Risks
Activities Allowed or Unallowed	Low	Low	High	High	Low
Allowable Costs/Cost Principles	Low	Low	High	High	Low
Cash Management	Low	Low	High	High	Low
Eligibility	Low	Low	High	High	Low
Equipment and Real Property Mgt	Low	Low	High	High	Low
Matching Level of Effort	Low	Low	High	High	Low
Period of Availability of Funds	Low	Low	High	High	Low
Procurement, Suspension & Debarment	Low	Low	High	High	Low
Program Income	Low	Low	High	High	Low
Reporting	Low	Low	High	High	Low
Subrecipient Monitoring	Low	Low	High	High	Low
Special Tests and Provisions	Low	Low	High	High	Low

Activities Allowed or Unallowed –

The specific requirements for activities allowed or unallowed are unique to each Federal program and are found in the Federal statutes, regulations, and the terms and conditions of the Federal award pertaining to the program. For programs listed in the OMB Compliance Supplement, the specific requirements of the governing statutes and regulations are included in Part 4, "Agency Program Requirements" or Part 5, "Clusters of Programs," as applicable. This type of compliance requirement specifies the activities that can or cannot be funded under a specific program.

The Key compliance objectives associated with these compliance requirements is that Federal awards are used for allowable activities under each Federal program. The key risk associated with these compliance requirements is that Federal awards will be used to fund activities that are not allowable under the applicable award. Management has assessed the risk of noncompliance as low due to the following internal controls. The grant activities and budgets are approved by the awarding agencies. Program management is responsible for approving invoices and ensuring that grant funds are used for approved activities. Program expenditures are charged against approved budgets which are recorded in the accounting system. Expenditures are also reviewed and approved by the department head to ensure that they are allowable activities under the Federal program. The expenditures are processed through the warrants payable process which subjects them to additional review and approval by the appropriate officials. The accounting and auditing function is responsible for ensuring that funds are available under the Federal award and that the activities are appropriate for the budgeted line items being charged.

Control activities are more fully described in our Internal Control Manual (see separate Internal Control Manual).

Allowable Costs/Cost Principles –

Basic Guidelines

Except where otherwise authorized by statute, cost must meet the following general criteria in order to be allowable under Federal awards;

1. Be necessary and reasonable for the performance of the Federal award and be allocable thereto under the principles in 2 CFR part 200, subpart E.

2. Conform to any limitations or exclusions set forth in 2 CFR part 200, subpart E or in the Federal award as to types or amount of cost items.

3. Be consistent with policies and procedures that apply uniformly to both Federally financed and other activities of the non-Federal entity.

4. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

5. Be determined in accordance with generally accepted accounting principles (GAAP), except, for State and local governments and Indian tribes only, as otherwise provided for in 2 CFR part 200.

6. Not be included as a cost or used to meet cost-sharing or matching requirements of any other Federally financed program in either the current or a prior period.

7. Be adequately documented.

The Key compliance objective associated with this compliance requirement is that Federal awards are used for allowable costs under each Federal program. The key risks associated with this compliance requirement include whether or not the costs are necessary and reasonable to carry out the grant, are consistent with the policies and procedures that apply to Federal and non-Federally financed expenditures, are not included as part of a match of Federal funds and must be adequately documented. Management has assessed the risk of noncompliance as low due to the following internal controls. The grant activities and budgets are approved by the awarding agencies. Program management is responsible for approving invoices and ensuring that goods and services charged to the grant are allowable costs under the terms of the grant agreement. Program expenditures are charged against approved budgets which are recorded in the accounting system. For many of the Federal awards, salaries are a significant cost element being charged. Time and effort documentation is required to be maintained and approved by department heads to substantiate the salaries charged to each Federal award. Non-salary expenditures are also reviewed and approved by the department head to ensure that they are allowable costs under the Federal award. The salary and non-salary expenditures are processed through the accounts payable and payroll processes which subject them to additional review and approval by the applicable officials. The accounting and auditing function is responsible for ensuring that funds are available under the Federal award and that the expenditures are appropriate for the budgeted line items being charged.

Cash Management –

Non-Federal Entities Other Than States

Non-Federal entities must minimize the time elapsing between the transfer of funds from the U.S. Treasury or pass-through entity and disbursement by the non-Federal entity for direct program or project costs and the proportionate share of allowable indirect costs, whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means (2 CFR section 200.305(b)).

What constitutes minimized elapsed time for funds transfer will depend on what payment system/method a non-Federal entity uses. For example:

- The U.S. Department of Health and Human Service (HHS) processes its financial transactions with non-Federal entities through HHS's Program Support Center (PCS), which uses the Payment Management System (PMS). Usually, payments from PMS process overnight and the funds would be available in a non-Federal entity's account the next business day. HHS also processes payments through same day wires (mostly State governments).

- Federal agencies, such as the U.S. Department of Commerce, and U. S. Department of the Interior, use the U.S. Treasury's Automated Standard Application for Payments (ASAP) system for grant and cooperative agreement payments. Non-Federal entities can use the ASAP on-line process to request and receive same-day payment.

Under the advance payment method, Federal awarding agency or pass-through entity payment is made to the non-Federal entity before the non-Federal entity disburses the funds for program purposes (2 CFR section 200.3). A non-Federal entity must be paid in advance provided that it maintains, or demonstrates the willingness to maintain, both written procedures that minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by the non-Federal entity, as well as a financial management system that meets the specified standards for fund control and accountability (2 CFR section 200.305(b)(1)).

The reimbursement payment method is the preferred payment method if (a) the non-Federal entity cannot the meet the requirements in 2 CFR section 200.305(b)(1) for advance payment, (b) the Federal awarding agency sets a specific condition for use of the reimbursement or (3) if requested by the non-Federal entity (2 CFR sections 200.305(b)(3) and 200.207)). The reimbursement payment method also may be used on a Federal award for construction or for other construction activity as specified in 2 CFR section 200.305(b)(3), program costs must be paid by non-Federal entity funds before submitting a payment request (2 CFR section 200.305(b)(3)), i.e., the non-Federal entity must disburse funds for program purposes before requesting payment from the Federal awarding agency or pass-through entity.

To the extent available, the non-Federal entity must disburse funds available from program income (including repayments to a revolving fund), rebates, refunds, contract settlements, audit recoveries, and interest earned on such funds before requesting additional Federal cash draws (2 CFR section 200.305(b)(5)).

Except for interest exempt under the Indian Self-Determination and Education Assistance Act (23 USC 450), interest earned by non-Federal entities other than States on advances of Federal funds is required to be remitted annually to the U. S. Department of Health and Human Services, Payment Management System, P.O. Box 6021, Rockville, MD 20852. Up to $500 per year may be kept for administrative expenses (2 CFR section 200.305(b)(9)).

The Key compliance objective associated with this compliance requirement is to minimize the time elapsing between the transfer of funds from the Federal agency and disbursement by the grant recipient. This requirement is not applicable for the majority of the federal awards because they operate on a reimbursement basis. For grants where advance payments are received, the recipient may retain interest earned up to $500 per year for administrative expenses. Interest earned in excess of $500 will be returned to the U. S. Department of Health and Human Services, Payment Management System, P.O. Box 6021, Rockville, MD 20852. The key risk associated with this compliance requirement is that interest earned on Federal funds in excess of $500 is not returned to the Federal government. Management has assessed the risk of noncompliance as low due to the following factors. The majority of the Federal awards received operate on a reimbursable basis. For advance funded Federal awards, the risk is considered low because funds are typically expended in a timely fashion after being received from the Federal agency. Also, current interest rates are low which significantly minimizes the risk that interest earned will exceed $500. Interest earned is monitored on a monthly basis by the grant administrator and procedures are in place to ensure that any interest in excess of $500 is returned to the Federal government.

Eligibility –

The specific requirements for eligibility are unique to each Federal program and are found in the statutes, regulations, and the terms and conditions of the Federal award pertaining to the program. For programs listed in the Supplement, these specific requirements are in Part 4, "Agency Program Requirements," or Part 5, "Clusters of Programs," as applicable. This compliance requirement specifies the criteria for determining the individuals, groups of individuals (including area of service delivery), or subrecipients that can participate in the program and the amounts for which they qualify.

The Key compliance objectives associated with this compliance requirement are to determine whether required eligibility determinations were made (including obtaining any required documentation/verification), that individual program participants or groups of participants (including area of service delivery) were determined to be eligible, and that only eligible individuals or groups of individuals participated in the program. Management has assessed the risk of noncompliance as low due to the following factors: Per the compliance supplement matrix, eligibility is not applicable for the majority of the Federal awards received. The most significant programs with eligibility requirements are the Title I and School Lunch programs. For both programs, the state provides significant oversight and training to ensure that eligibility requirements are being met.

School lunch eligibility can be confirmed by income verification or by providing documentation of participation in the Federal supplemental nutrition assistance program (SNAP). By November 15th of each school year, the grant recipient must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals. The verification sample size is based on the total number of approved applications on file on October 1st. The results of the testing are reported to the state to facilitate their monitoring responsibilities.

Eligibility for the Title I program is determined based on poverty levels of the population residing in the school attendance areas. A Local Educational Agency (LEA) must determine which school attendance areas are eligible to participate in Title I Part A. A school attendance area is generally eligible to participate if the percentage of children from low-income families is at least as high as the percentage of children from low-income families in the LEA as a whole or at least 35 percent. An LEA may also designate and serve a school in an ineligible attendance area if the percentage of children from low-income families enrolled in that school is equal to or greater than the percentage of such children in a participating school attendance area. When determining eligibility, an LEA must select a poverty measure from among the following data sources: (1) the number of children ages 5–17 in poverty counted in the most recent census; (2) the number of children eligible for free and reduced price lunches; (3) the number of children in families receiving Temporary Assistance for Needy Families (TANF); (4) the number of children eligible to receive Medicaid assistance; or (5) a composite of these data sources. The LEA must use that measure consistently across the district to rank all its school attendance areas according to their percentage of poverty. An LEA must serve eligible schools or attendance areas in rank order according to their percentage of poverty. An LEA must serve those areas or schools above 75 percent poverty, including any middle or high schools, before it serves any with a poverty-percentage at or below 75 percent. After an LEA has served all areas and schools with a poverty rate above 75 percent, the LEA may serve lower-poverty areas and schools either by continuing with the district-wide ranking or by ranking its schools at or below 75 percent poverty according to grade-span grouping (e.g., K-6, 7-9, 10-12). If an LEA ranks by grade span, the LEA may use the district-wide poverty average or the poverty average for the respective grade-span grouping. An

LEA may serve, for one additional year, an attendance area that is not currently eligible but that was eligible and served in the preceding year. The poverty levels are derived from census poverty estimates and are compiled at the local level and submitted to the State for review and approval as part of the application process.

Control activities are more fully described in our Internal Control Manual.

<u>Equipment and Real Property Management</u> –

Equipment means tangible personal property, including information technology systems, having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial statement purposes or $5,000 (2 CFR section 200.33). Title to equipment acquired by a non-Federal entity under grants and cooperative agreements vests in the non-Federal entity subject to certain obligations and conditions (2 CFR section 200.313(a)).

Non-Federal entities other than States must follow 2 CFR sections 200.313(c) through (e) which require that:

1. Equipment acquired with Federal awards is used in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by the Federal award or, when appropriate, under other Federal awards; however, the non-Federal entity must not encumber the equipment without prior approval of the Federal awarding agency (2 CFR sections 200.313(c) and (e)).
2. Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the Federal award identification number), who holds title, the acquisition date, cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sales price of the property.
3. A physical inventory of the property must be taken and the results reconciled with the property records at least once every 2 years (2 CFR section 200.313(d)(2)).
4. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated (2 CFR section 200.313(d)(3)).
5. Adequate maintenance procedures must be developed to keep the property in good condition (2 CFR section 200.313(d)(4)).
6. If the non-Federal entity is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return (2 CFR section 200.313(d)(5)).
7. When original or replacement equipment acquired under a Federal award is no longer needed for a Federal program (whether the original project or program or other activities currently or previously supported by the Federal government), the non-Federal entity must request disposition instructions from the Federal awarding agency if required by the terms and conditions of the award. Items of equipment with a current per-unit fair market value of $5,000 or less may be retained, sold, or otherwise disposed of with no further obligation to the Federal awarding agency. If the Federal awarding agency fails to provide requested disposition instructions within 120 days, items of equipment with a current per-unit fair market value in excess of $5,000 may be retained or sold. The Federal awarding agency is entitled to the Federal interest in the equipment, which is the amount calculated by multiplying the current market value or sale proceeds by the

Federal agency's participation in total project costs (2 CFR section 200.313(e) and 200.41).

The key risks associated with these compliance requirements is that equipment or real property acquired with Federal funds will not be used for the programs or projects for which it was acquired, that proper documentation will not be maintained to account for the real property, that proper inventory controls will not be maintained and that dispositions will not be in accordance with Federal regulations for property that has a fair market value in excess of $5,000. Management has assessed the risk of noncompliance as low because Federal funds are not typically used to purchase equipment or real property in excess of $5,000 and in instances where this does occur, controls are in place to ensure that the compliance requirements are met.

Control activities are more fully described in our Internal Control Manual.

<u>Matching Level of Effort and Earmarking</u> –

The specific requirements for matching, level of effort, and earmarking are unique to each Federal program and are found in the statutes, regulations, and the terms and conditions of awards pertaining to the program. For programs listed in this Supplement, these specific requirements are in Part 4, "Agency Program Requirements," or Part 5, "Clusters of Programs," as applicable. However, for matching, 2 CFR section 200.306 provides detailed criteria for acceptable costs and contributions.

"Matching," "level of effort," and "earmarking" are defined as follows:

1. *Matching* or cost sharing includes requirements to provide contributions (usually non-Federal) of a specified amount or percentage to match Federal awards. Matching may be in the form of allowable costs incurred or in-kind contributions (including third-party in-kind contributions).

2. *Level of effort* includes requirements for (a) a specified level of service to be provided from period to period, (b) a specified level of expenditures from non-Federal or Federal sources for specified activities to be maintained from period to period, and (c) Federal funds to supplement and not supplant non-Federal funding of services.

3. *Earmarking* includes requirements that specify the minimum and/or maximum amount or percentage of the program's funding that must/may be used for specified activities, including funds provided to subrecipients. Earmarking may also be specified in relation to the types of participants covered.

The following is a list of the basic criteria for acceptable matching:

- Are verifiable from the non-Federal entity's records;

- Are not included as contributions for any other Federal award;

- Are necessary and reasonable for accomplishment of project or program objectives;

- Are allowed under 2 CFR part 200, subpart E (Cost Principles);

- Are not paid by the Federal Government under another award, except where the Federal statute authorizing a program specifically provides that Federal funds made available for such program can be applied to matching or cost sharing requirements of other Federal programs;

- Are provided for in the approved budget when required by the Federal awarding agency; and

- Conform to other provisions of this part, as applicable.

The key risks associated with these compliance requirements is that grant matching requirements, level of effort requirements, or earmarking requirements will not be met. Management has assessed the risk of noncompliance as low because it does not have Federal awards with matching or earmarking requirements. For Federal awards that have level of effort requirements, the Federal awards are passed-through the Massachusetts Department of Elementary and Secondary Education (DESE) who is responsible for monitoring compliance. The monitoring is completed on an annual basis with data that is collected through the DESE's End-of-Year Financial Reporting requirements. In addition to the DESE monitoring requirements, the education appropriation has increased on an annual basis over the last ten years which reduces the risk that level of effort requirements will not be met.

Control activities are more fully described in our Internal Control Manual.

<u>Period of Availability of Funds</u> –

A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity (2 CFR section 200.309).

Unless the Federal awarding agency or pass-through entity authorizes an extension, a non-Federal entity must liquidate all obligations incurred under the Federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award (2 CFR section 200.343(b)). When used in connection with a non-Federal entity's utilization of funds under a Federal award, "obligations" means orders placed for property and services, contracts and subawards made, and similar transactions during a given period that require payment by the non-Federal entity during the same or a future period (2 CFR section 200.71).

The key risk associated with this compliance requirement is that allowable costs will be charged to a Federal award prior to the period of performance unless prior authorization was received by the Federal awarding agency and that any obligations incurred under the Federal award are not liquidated within 90 calendar days after the end date of the period of performance unless an extension has been granted by the Federal awarding agency. Management has assessed the risk of noncompliance as low because internal controls are in place to ensure that costs can only be charge during the period of performance. These controls include the ability of management to inactivate accounts after the period of availability of funds and the use of purchase requisitions and purchase orders to commit funds which require review and approval by management to ensure that commitments and expenditures are within the period of availability.

Control activities are more fully described in our Internal Control Manual.

Procurement and Suspension and Debarment –

Non-Federal entities other than States, including those operating Federal programs as subrecipients of States, must follow the procurement standards set out at 2 CFR sections 200.318 through 200.326. They must use their own documented procurement procedures, which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal statutes and the procurement requirements identified in 2 CFR part 200. A non-Federal entity must:

1. Meet the general procurement standards in 2 CFR section 200.318, which include oversight of contractors' performance, maintaining written standards of conduct for employees involved in contracting, awarding contracts only to responsible contractors, and maintaining records to document history of procurements.

2. Conduct all procurement transactions in a manner providing full and open competition, in accordance with 2 CFR section 200.319.

3. Use the micro-purchase and small purchase methods only for procurements that meet the applicable criteria under 2 CFR sections 200.320(a) and (b). Under the micro-purchase method, the aggregate dollar amount does not exceed $3,500 ($2,000 in the case of acquisition for construction subject to the Wage Rate Requirements (Davis-Bacon Act)). Small purchase procedures are used for purchases that exceed the micro-purchase amount but do not exceed the simplified acquisition threshold. Micro-purchases may be awarded without soliciting competitive quotations if the non-Federal entity considers the price to be reasonable (2 CFR section 200.320(a)). If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources (2 CFR section 200.320(b)).

4. For acquisitions exceeding the simplified acquisition threshold, the non-Federal entity must use one of the following procurement methods: the sealed bid method if the acquisition meets the criteria in 2 CFR section 200.320(c); the competitive proposals method under the conditions specified in 2 CFR section 200.320(d); or the noncompetitive proposals method (i.e., solicit a proposal from only one source) but only when one or more of four circumstances are met, in accordance with 2 CFR section 200.320(f).

5. Perform a cost or price analysis in connection with every procurement action in excess of the simplified acquisition threshold, including contract modifications (2 CFR section 200.323(a)). The cost plus a percentage of cost and percentage of construction cost methods of contracting must not be used (2 CFR section 200.323(d)).

6. Ensure that every purchase order or other contract includes applicable provisions required by 2 CFR section 200.326. These provisions are described in Appendix II to 2 CFR part 200, "Contract Provisions for Non-Federal Entity Contracts Under Federal Awards."

The key risks associated with this compliance requirement are that micro-purchases (less than $3,500) will not be distributed equitably among qualified suppliers, purchases in excess of the micro-purchase threshold ($3,500) and below the MGL Chapter 30B threshold ($10,000) requiring price/rate quotes will not be adhered to, purchases in excess of the MGL Chapter 30B threshold ($50,000) requiring competitive bids will not be adhered to. Management has assessed the risk of noncompliance as low. The low risk assessment is based on the fact that individuals responsible for procurement have received training and certification under the Massachusetts Public Procurement Officer program sponsored by the Massachusetts Inspector General's Office. Click on the following link to learn more about the certification process http://www.mass.gov/ig/mcppo/. Written policies and procedures are maintained with regards to purchasing that are distributed to department heads to inform them of any new or updated procedures as well as conducting continuing education with regards to purchasing policies and procedures.

Control activities are more fully described in our Internal Control Manual.

Program Income –

Program income is gross income earned by a non-Federal entity that is directly generated by a supported activity or earned as a result of the Federal award during the period of performance (unless there is a requirement for disposition of program income after the end of the period of performance as provided in 2 CFR section 200.307(f)).

Program income (2 CFR section 200.80) includes, but is not limited to income from:

- Fees for services performed,
- The use or rental of real or personal property acquired under Federal awards,
- The sale of commodities or items fabricated under Federal awards,
- License fees and royalties on patents and copyrights, except as provided below, and
- Principal and interest on loans made with Federal award funds.

Program income does not include:

- Interest earned on advances of Federal funds.
- Except as otherwise provided in Federal statutes, regulations or the terms and conditions of the Federal award, rebates, credits, discounts and interest earned on any of them.
- Taxes, special assessments, levies, fines, and other such revenues raised by a non-Federal entity, unless the Federal award or Federal awarding agency regulations specifically identify the revenues as program income (2 CFR section 200.307(c)).
- The proceeds from the sale of equipment or real property acquired in whole or in part under the Federal award (2 CFR section 200.307(d)).

Royalties or income earned by an institution of higher education or a nonprofit organization on inventions conceived or first actually reduced to practice in the performance of work under a funding agreement with a Federal agency that is shared with the inventor (2 CFR section 200.307(g); 37 CFR sections 401.2 and 401.14(k); 35 USC 201(i), and 35 USC 202(c)(7)(B)).

The key risk associated with this compliance requirement is that the program income will not be used in accordance with the allowable methods as indicated in 2 CFR section 200.307(e). Management has assessed the risk of noncompliance as low. The low risk assessment is based on the fact that program income is generally not applicable to our organization. If program income is received, the default method for using program income is the deduction method. Under the deduction method, program income is deducted from the total allowable costs unless the otherwise directed by the Federal awarding or pass-through agency.

Control activities are more fully described in our Internal Control Manual.

Reporting –

Financial Reporting

Recipients must use the standard financial reporting forms or such other forms as may be authorized by OMB (approval is indicated by an OMB paperwork control number on the form) when reporting to the Federal awarding agency. Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency. If the Federal awarding agency requires reporting of accrual information and the recipient's accounting records are not normally maintained on the accrual basis, the recipient is not required to convert its accounting system to an accrual basis but may develop such accrual information through analysis of available documentation. The Federal awarding agency may accept identical information from the recipient in machine-readable format, computer printouts, or electronic outputs in lieu of closed formats or on paper.

Similarly, a pass-through entity must not require a subrecipient to establish an accrual accounting system and must allow the subrecipient to develop accrual data for its reports on the basis of an analysis of available documentation.

The financial reporting requirements for subrecipients are as specified by the pass-through entity. In many cases, these will be the same as or similar to those for recipients.

The standard financial reporting forms for grants and cooperative agreements are as follows:

- *Request for Advance or Reimbursement (SF-270) (OMB No. 0348-0004)).* Recipients are required to use the SF-270 to request reimbursement payments under non-construction programs, and may be required to use it to request advance payments.

- *Outlay Report and Request for Reimbursement for Construction Programs (SF-271) (OMB No. 0348-0002)).* Recipients use the SF-271 to request funds for construction projects unless they are paid in advance or the SF-270 is used.

- *Federal Financial Report (FFR) (SF-425/SF-425A) (OMB No. 0348-0061)).* Recipients use the FFR as a standardized format to report expenditures under Federal awards, as well as, when applicable, cash status (Lines 10.a, 10.b, and 10c). References to this report include its applicability as both an expenditure and a cash status report unless otherwise indicated.

Electronic versions of the standard forms are located on OMB's home page (http://www.whitehouse.gov/omb/grants_forms).

Financial reporting requirements for cost reimbursement contracts subject to the Federal Acquisition Regulation (FAR) are contained in the terms and conditions of the contract.

Performance and Special Reporting

Non-Federal entities may be required to submit performance reports at least annually but not more frequently than quarterly, except in unusual circumstances, using a form or format authorized by OMB (2 CFR section 200.328(b)(1)). They also may be required to submit special reports as required by the terms and conditions of the Federal award.

Compliance testing of performance and special reporting are only required for data that are quantifiable and meet the following criteria:

1. Have a direct and material effect on the program.

2. Are capable of evaluation against objective criteria stated in the statutes, regulations, contract or grant agreements pertaining to the program.

The key risks associated with this compliance requirement are that the required standardized forms will not be used for reporting and that reporting will not be completed on a timely basis. Management has assessed the risk of noncompliance as low. The low risk assessment is based on the fact that the majority of the Federal awards are received from pass-through entities which provide a significant amount of training and oversight to ensure that reporting requirements are met for each Federal award. Also, reporting responsibilities are centralized with the grant administrators. Management also provides oversight to ensure that monthly, quarterly and annual reporting is completed on a timely basis and that the proper standardized forms are utilized.

Control activities are more fully described in our Internal Control Manual.

<u>Subrecipient Monitoring</u> –

A pass-through entity (PTE) must:

- *Identify the Award and Applicable Requirements* – Clearly identify to the subrecipient: (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award (2 CFR section 200.331(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the Federal award (e.g., financial, performance, and special reports) (2 CFR section 200.331(a)(3)).

- *Evaluate Risk* – Evaluate each subrecipient' s risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR section 200.331(b)). This evaluation of risk may include consideration of such factors as the following:

1. The subrecipient' s prior experience with the same or similar subawards;

2. The results of previous audits including whether or not the subrecipient receives single audit in accordance with 2 CFR part 200, subpart F, and the extent to which the same or similar subaward has been audited as a major program;

3. Whether the subrecipient has new personnel or new or substantially changed systems; and

4. The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).

- *Monitor* – Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.331(d) through (f)). In addition to procedures identified as necessary based upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following:

  1. Reviewing financial and programmatic (performance and special reports) required by the PTE.

  2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.

  3. Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the PTE as required by 2 CFR section 200.521.

Ensure Accountability of For-Profit Subrecipients – Some Federal awards may be passed through to for-profit entities. For-profit subrecipients are accountable to the PTE for the use of the Federal funds provided. Because 2 CFR part 200 does not make subpart F applicable to for-profit subrecipients, the PTE is responsible for establishing requirements, as necessary, to ensure compliance by for-profit subrecipients for the subaward. The agreement with the for-profit subrecipient must describe applicable compliance requirements and the for-profit subrecipient' s compliance responsibility. Methods to ensure compliance for Federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the agreement, and post-award audits (2 CFR section 200.501(h)).

The key risks associated with this compliance requirement are that the award and requirements will not be clearly communicated to a subrecipient, that evaluation of the risk of noncompliance for purposes of determining appropriate subrecipient monitoring will not be appropriate, and that required monitoring activities will not be performed. Management has assessed the risk of noncompliance as low. The low risk assessment is based on the fact that no Federal funds are currently awarded to subrecipients.

Control activities are more fully described in our Internal Control Manual.

Special Tests and Provisions –

The specific requirements for Special Tests and Provisions are unique to each Federal program and are found in the statutes, regulations, and the provisions of contract or grant agreements pertaining to the program.

The key risk associated with this compliance requirement is that the recipient will not be aware of special tests and provisions and will not adhere to the specific requirements associated with them. Management has assessed the risk of noncompliance as low. The low risk assessment is based on the fact that an evaluation of grant awards is completed on an annual basis to determine if special tests and provisions are applicable to any grant awards. If special tests and provisions are identified, the administrative team is notified and procedures are put in place to ensure compliance.

Control activities are more fully described in our Internal Control Manual.

- Management is aware of results of monitoring, audits, and reviews, and considers related risk of noncompliance. [Principle 7]

  Management holds weekly meetings and is updated on the results of monitoring activities, audits and reviews. Action plans are developed to address any weaknesses in internal or noncompliance that is noted. Additional follow-up is done to make sure that action plans are implemented and that the corrective action addressed any matters noted.

- Management and employees identify, analyze, and adequately respond to risks related to achieving the defined objectives. [Principle 7]

  Management holds weekly meetings and discusses risk related to achieving defined objectives. Material risks are analyzed by management and controls are assessed to ensure that risks are reduced to an acceptable level.

- The organizational structure provides identification of risks of noncompliance [Principle 7]
  - Key managers have been given responsibility to identify and communicate risks of noncompliance.
  - Employees who require close supervision (e.g., they are inexperienced) are identified.
  - Management has identified and assessed complex operations, programs, or projects.

- Management considers the potential for fraud when identifying, analyzing, and responding to risk. This assessment includes at a minimum the following: [Principle 8]
  - types of fraud,
  - fraud risk factors, and
  - response to fraud risks.

  There is very little risk related to this type of operation. Primarily because the employees do not financially benefit from the results of operations, except to maintain jobs. During times of significant financial hardship, the increased stress to the organization can increase the risk that prepared budgets are not sufficient to meet actual expenditures. However, the financial reality is that if recurring revenues are not sufficient to fund recurring expenditures, eventually budget cuts will have to be made.

In the governmental environment, any major organizational restructuring is a long and involved process where management has sufficient lead time to adjust the budget to reflect the new organizational structure.

There is risk that elected officials may react to increased financial pressures by not implementing or enforcing sound business policies which could lead to a deteriorating financial condition. Examples would include not raising water rates to cover 100% of the cost of providing the service, improper procurement practices, and depletion of reserves to fund operations.

Lack of foresight in completing long term capital plans can lead to deteriorating infrastructure which will have an adverse effect on the long term financial condition.

GASB pronouncements can add to the financial burden of a community.

A community can face financial pressures related to technological resources.

The government must comply with grant restrictions and all grants are supplied to the accounting office to review the allowability of activities and costs. The Federal grants are audited as part of the single audit which reduces risk. Monitoring reviews are made periodically by the granting agencies. The risk related to noncompliance with Federal and state grants could result in termination of future grants.

Most grants are drawn down monthly, quarterly or up front. For reimbursable grants the only delay in receipt is the timing of the reimbursement requests.

The largest risk is a revenue reduction from state aid and excise taxes. However this risk is minimal as the community can increase their major revenue source by 2 1/2% each year. It will cause appropriation reductions but there is no risk the government will go out of business.

If serious conditions occur due to mismanagement the state has come in several times and put in a control board which has been successful in turning the communities around in a relative short period of time.

If there is a significant economic downturn, which results in a decreasing revenue base for the community, the community will be forced to reduce services.

There are very few real risks related to the government's revenues. The Department of Revenue (DOR) does not allow the community to budget more than the actual revenue received in the prior year unless they can clearly demonstrate the increase is justified.

The major revenue sources are:

Real estate and personal property taxes which the billing is set by the assessor and first year collections are usually about 95% and in the next year the community usually collect another 4%. Any unpaid amounts are liened against the parcel and therefore the community has secured its position. Due to these factors, risk is minimal.

State Aid is known before the year begins and is part of the budgetary process. It is always 100% collected and normally received in quarterly payments. Risk is considered minimal.

Motor Vehicle Excise bills are created by the Registry of Motor Vehicles and are substantially collected. Although unpaid amounts cannot be liened they are marked at the registry and the owner cannot renew the registration or license with paying all amounts due.

User fees are based on costs of providing the services and readings taken for actual usage. Any unpaid fees can be liened and depending on the circumstances the service can be stopped until the fee is paid.

Bad debt allowance is minimal.

There is significant risk related to the year-end accrual entries since the entries are done only once a year. Therefore the infrequency of the accounting increases the possibility of error but not fraud or misappropriation of assets.

All of the risks previously mentioned are minimized through a combination of factors, which include:

The Department of Revenue is the oversight board for how all communities must maintain their statutory accounts, in addition, they publish the UMAS manual that is the authoritative budgetary book that dictates how all transactions should be recorded. In conjunction with this, the community is required to submit annual reports under this basis of accounting to the DOR.

The DOR issued a comprehensive guide on how to implement GASB 34 which included all GAAP to date and how the community would convert their statutory financial statements into GAAP. All communities are required to use this guidance when preparing their audited financial statements.

Any new pronouncements are addressed by the community through continuing education provided by the Accountant's and Auditor's Associations and discussions with the independent auditors. Before implementing any new accounting policies, consultations are conducted with the independent auditors.

The major governmental expense is payroll. Procedures are maintained for hiring and dismissing employees. The Personnel department, Treasurer's Office and Accounting Department need to be informed of any personnel changes. Any new full-time employee joins the retirement system and deductions must be turned over monthly. Employees are charged to a department appropriation which is diligently monitored by the department heads. Therefore the risk of full-time fictitious employees is minimal. Salary levels are controlled by collective bargaining and the annual increases are normally 0% to 3% which is covered by prop 2 1/2. If reductions have to be made in the workforce it is usually covered by attrition, retirement, or reducing staffing levels based on seniority. The reductions are normally not made in the finance areas due to the limited number of staff and minor dollars in relation to the total budget. Therefore internal financial controls are usually not adversely affected by layoffs.

Employee benefits are directly related to actual employees and the health insurance account is monitored each month. Although it is possible that terminated employees are not removed from the rolls timely the risk of material financial statement error is minimal.

Pension expense is an annual assessment made by the retirement system.

Debt service is structured with the assistance of financial advisors. There is very little risk related to this expenditure.

The remaining expenses are monitored through annual budgets, capital committees, management and department heads. There is a risk that expenses may be recorded in the wrong period through error or financial statement fraud but the risk is minimized by the fact that accounting personnel are instructed not to pay a bill related to the prior period unless a separate appropriation is made for unpaid bills. This process takes months and through past experience the risk is minimal. The recording of expenses in the wrong fiscal year is only important in budgeted funds as multi-year funds such as capital projects, certain grants and revolving funds carryover any unspent resources to the following year.

The risk related to investment activity relates to investing in high risk investments which could result in a permanent loss of operating or capital funds.

MGL limits local government's legal investments which significantly reduces investment risk. There is minimal personal benefit to the Treasurer based on investment performance. Therefore, the likelihood that the Treasurer would knowingly violate MGL regulations is minimal. The commonwealth updates its legal list of investments annually.

The risk related to financing is not having access to the financing markets to meet cash flow needs. In addition, there are several forms of complex financing arrangements that places risk to the community through interest rate increases. We have never experienced an inability to access financing at competitive rates.

The MGL does not allow for local governments to engage in complex financing arrangements such as swaptions. In order for a community to borrow, a series of third parties are involved in the process including financial advisors, the executive branch of the government, bond counsel, DOR, which ensure that the financing is in compliance with MGL. This area does not carry a significant risk.

The financial statements are expected to be widely distributed to Federal agencies, State agencies, citizens, used in official statements, continuing disclosures and other. The risks are community related if there are qualifications in the opinion, findings on the single audit or significant deficiencies. We do not believe any of these risks are significant because they are minimized through the independent audit process.

The risks related to IT include:

- failure to backup critical data and programs.
- lack of sufficient personnel with appropriate knowledge and skills due to budgetary constraints. There is risk associated with the loss of a critical IT employee if the employee could not be replaced immediately through internal or external sources.
- lack of adequate documentation of policies and procedures related to IT and financial applications.
- lack of contingency plans for alternative processing in the event of loss or interruption of the IT function.
- the risk of maintaining multiple computing environments without adequate integration.

These risks have been mitigated by the employment of an IT Director with suitable skills, knowledge and experience. In addition, written policies and procedures have been adopted to ensure that each of these risks has been addressed.

- Processes are established to implement significant changes in program objectives and procedures. [Principle 9]

Grant agreements, contracts and the Federal compliance supplement are reviewed on an annual basis to identify significant changes to program objectives and procedures. Oversight agencies and pass-through entities, such as the Department of Education, provide training and resource materials to assist in the identification of changes to program objectives and procedures. Once significant changes are identified, policies and procedures are developed to ensure compliance. These policies and procedures are communicated to management at weekly meetings and departmental staff is made aware of the changes by management.

C. Control Activities. The actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.

- Adequate segregation of duties is provided between performance, review, and recordkeeping of a task. [Principle 10]

  Management should divide or segregate key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for:
  - authorizing transactions,
  - processing and recording them,
  - reviewing the transactions, and
  - handling any related assets or process so that no one individual controls all key aspects of a transaction or event.

  In other words, control activities related to authority, custody, and accounting of operations ought to be separated to achieve adequate segregation of duties.

  If segregation of duties is not practical within an operational process because of limited personnel for example, adding closer supervision, cross-training or frequent reviews may be an alternative for this control activity.

  Segregation of duties is achieved at the departmental level as well as at the entity-wide level. Grant drawdowns and requests for reimbursement are initiated at the departmental level and cash receipts are recorded by the Treasurer's office and are wired into a bank account maintained by the Treasurer. The Treasurer has custody of all of the bank accounts. Departments will typically notify the Treasurer when a drawdown or reimbursement request has been made to assist the Treasurer with the identification of funds received.

  For the majority of the Federal awards, payroll is the most significant transaction class. The grant application process typically requires a detailed budget to be approved indicating the payroll positions to be charged, and the number of FTE's associated with each position. Time and effort documentation is maintained by each employee paid from the grant and is approved by the department head to ensure that only eligible payroll is charged to the Federal awards. For disbursements, purchase requisitions and purchase orders are utilized which are approved at the department level, approved by the procurement officer and approved by the Accountant/Auditor. Control activities are more fully described in our Internal Control Manual.

- Supervision of employees is commensurate with their level of competence. [Principle 10]

  Employee's competence is evaluated on an ongoing basis. The level of employee supervision is planned and adjusted based on the evaluation of the employee's performance and competence. As an employee's level of competence increases, supervision of that employee can be reduced to a lower level.

- Personnel possess adequate knowledge and experience to discharge their responsibilities. [Principle 10]

  Personnel are evaluated during the hiring process against specific roles and responsibilities that they are applying for. Candidates for management level positions typically require prior experience that would allow them to complete the responsibilities of the position. Staff level positions do not always require prior experience, but personnel must possess the ability to perform the roles and responsibilities given sufficient training and supervision.

- Equipment, inventories, cash, and other assets secured physically and periodically counted and compared to recorded amounts. [Principle 10]

  Equipment is tagged and inventoried on a periodic basis. Commodities for the school lunch program are also inventoried on a weekly basis. Cash and other assets are counted and reconciled to the general ledger and supporting documentation on a monthly basis. Any discrepancies noted are investigated and resolved as part of the reconciliation process.

- Computer and program controls include [Principle 11]:
  - Data entry controls, e.g., edit checks.
  - Exception reporting.
  - Access controls.
  - Reviews of input and output data.
  - Computer general controls and security controls.

  Data entry controls primarily relate to the reconciliation process. This is where most data entry errors are discovered and corrected. Some of the most important reconciliations include cash, receivables, Federal awards, departmental appropriations, payroll withholdings, etc.

  Exception reporting is mainly used in the billing process to identify issues with customer utility bills and to ensure that bills are in line with expectations. Outliers are reviewed and investigated to ensure accuracy.

  Data access is controlled through the use of user profiles in the accounting system and through physical safeguards for manual records such as locking information in a safe, file cabinet or other secure area. Computer passwords are also changed periodically and require strong passwords to reduce the risk of hacking.

  Input and output data is reconciled to supporting documentation by the accounting department as well as the departments that are responsible for the transactions.

- Operating policies and procedures exist and are clearly written and communicated. [Principle 11]

  Operating policies and procedures have been documented in our internal control manual. Management and staff are instructed to review the internal control manual on an annual basis and refer to it if questions arise about standard operating procedures and control activities.

- Procedures are in place to implement changes in statutes, regulations, and the terms and conditions affecting Federal awards. [Principle 11]

  Grant managers are responsible for identifying changes in statutes, regulations and terms and conditions affecting Federal awards and are responsible for updating processes and procedures to ensure compliance. Federal awarding agencies as well as pass-through entities also provide training seminars to highlight changes in statutes, regulations and terms and conditions affecting Federal awards. The seminars are designed to educate the grant recipients about how to comply with the changes.

- Management prohibits intervention or overriding established controls. [Principle 11]

  Management reviews compliance with established controls to ensure that controls are not intervened with or overridden. For example, supporting documentation is reviewed to ensure that required reviews and approvals by department heads are occurring and that the required signoffs are present documenting department head approval.

- If there is a governing Board, the Board conducts regular meetings where financial information is reviewed and the results of program activities and accomplishments are discussed. Written documentation is maintained of the matters addressed at such meetings. [Principle 11]

  The governing board meets on a monthly basis. These meetings typically include review of financial information and discussion of program activities and accomplishments. Meeting minutes are prepared documenting the topics discussed at each meeting.

D. **Information and Communication.** The quality of information management and personnel communicate and use to support the internal control system.

- The accounting system provides for separate identification of Federal and non-Federal transactions and allocation of transactions applicable to both.
  [Principle 13]

  A fund based accounting system is maintained that provides a separate accounting of Federal funds. This facilitates identification of Federal awards and accounting and reporting requirements.

- Adequate source documentation exists to support amounts and items reported. A recordkeeping system is established to ensure that accounting records and documentation are retained for the time period required in the statutes, regulations, and the terms and conditions applicable to the program. [Principle 13]

  Source documents are typically maintained at the department level where responsibility for administration of the Federal award exists as well as in the accounting and treasury departments. Supporting documentation is required for the receipt and disbursement processes. For disbursements, the original invoice must be submitted to the accounting department and is maintained with the approved warrant. For receipts, supporting documentation must be provided to the treasurer's office along with a turnover sheet that is used to record the transaction. All documentation is maintained in accordance with Federal and State record retention requirements.

See 2CFR Section 200.333 for UG record retention requirements. Massachusetts record retention requirements can be found at https://www.sec.state.ma.us/arc/arcrmu/rmuidx.htm.

- Accurate information is accessible to those who need it. [Principle 13]

  Accurate financial information can be obtained from the accounting system. This information is reconciled to departmental records on a monthly basis. Program related information is maintained at the department level and can be obtained by contacting the applicable department.

- Reports are provided timely to managers for review and appropriate action. [Principle 13]

  Financial information is available to managers on a real-time basis through access to the accounting system. Audits and review reports are available to managers for review and appropriate action. From a practical standpoint, any matters warranting corrective action are discussed at the time of the audit. Responses from management and corrective actions are requested at that time and are typically implemented prior to the audit being finalized or very soon thereafter. Corrective action plans are required to be submitted to the Federal audit clearinghouse with the annual submission which helps to facilitate timely implementation.

- Reconciliations and reviews ensure accuracy of reports. [Principle 13]

  Monthly reconciliations of general ledger accounts are required. This includes reconciliation of cash accounts between bank and general ledger balances and reconciliation of revenue and expenditure transactions between general ledger balances and financial reporting required for Federal awards.

- Actions are taken as a result of communications received. [Principle 13]

  Audits and review reports are available to managers for review and appropriate action. Any matters warranting corrective action are communicated to management during the audit. Responses from management and corrective actions are requested at that time and are typically implemented prior to the audit being finalized or very soon thereafter. Corrective action plans are required to be submitted to the Federal audit clearinghouse with the annual submission which helps to facilitate timely implementation.

- Established internal and external communication channels exist. [Principle 14]
  - Staff meetings.
  - Bulletin boards.
  - Memos, circulation files, e-mail.
  - Surveys, suggestion box.

  Management meets on a weekly basis to discuss emerging issues and other pertinent matters. Staff meetings are held on an as needed basis at the discretion of the department head. Other communications are made using bulletin boards, memo's emails and surveys.

- Employees' duties and control responsibilities are effectively communicated. [Principle 14]

  Employee roles and responsibilities are documented by the human resources department and communicated to each employee. Control responsibilities are documented in the internal control document and are communicated to employees by management. Procedure manuals are maintained at the department level documenting the control responsibilities of each position in the department.

- Channels of communication for people to report suspected improprieties have been established. [Principle 14]

  Employees are encouraged to report improprieties to their direct supervisor, however in situations where this is not practical; they are encouraged to report to the next highest ranking level of management. In instances where this is still not practical, employees are encouraged to bring the matter to the chief executive officer or to those charged with governance.

- There are established channels of communication between the pass-through entity and subrecipients. [Principle 15]

  We do not currently provide any subawards to subrecipients.

E. **Monitoring.** Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.

- Ongoing monitoring is built-in through independent reconciliations, staff meeting feedback, rotating staff, supervisory review, and management review of reports. [Principle 16]

  Various reconciliations are performed by program staff, including reconciliation of general ledger balances to departmental records, reconciliation of external financial reporting to general ledger balances and other applicable supporting documentation. Management is responsible for reviewing and approving the reconciliations on a monthly basis. Staff meetings are held on a monthly basis or more frequently if deemed necessary by Management. Staff meetings are held to disseminate information to staff and to provide a forum for staff members to bring internal control and other issues to management's attention. Staff is rotated between functions to the greatest extent possible, however the ability to do so is limited by the overall number of staff available for this purpose.

- Periodic site visits are performed at decentralized locations (including subrecipients' locations) and checks are performed to determine whether procedures are being followed as intended. [Principle 16]

  The Accounting/Auditing function is responsible for performing periodic site visits to assess whether or not departments are adhering to established policies and procedures. This involves meeting with program management and staff to assess their understanding of their roles and responsibilities and the required control activities. Additionally supporting documentation is reviewed to ensure that control activities are being performed as required and that department heads are providing the necessary oversight and supervision through review and approval of supporting documentation. For example, this oversight includes review and approval of purchase requisitions, invoices, time and effort documentation for staff being paid from Federal funds, account reconciliations and other pertinent documentation to ensure compliance with program requirements.

- Management meets with program monitors, auditors, and reviewers to evaluate the condition of the program and controls. [Principle 16]

  The results of site visits, audits and other reviews are evaluated by management to determine whether internal controls are operating as designed and to assess the effectiveness of the internal controls at achieving the control objectives.

- Management follows up on irregularities and deficiencies to determine the cause. [Principle 17]

  Any irregularities or deficiencies noted during the site visits are followed up on immediately by management. Management assesses whether or not the irregularities or deficiencies could result in a material noncompliance or a material weakness in internal controls. Based on this assessment, a determination is made as to whether or not there is a weakness in the design or operation of controls. If the deficiency relates to the operation of internal controls, the deficiency is addressed with the department head and staff members to ensure that controls operate as designed on a go-forward basis. If the deficiency relates to the design of internal controls, the controls are assessed and modifications to existing procedures are implemented to correct the deficiency.

- Internal audit routinely tests for compliance with Federal requirements. [Principle 17]

  Internal audits are performed on an annual basis to verify compliance with grant agreements, laws and regulations pertaining to Federal awards and are performed by individuals independent of the department that is administering the Federal program. Any noncompliance noted in the internal audits is brought to the attention of the department head as well as management. Management requires the department head to develop corrective action plans and additional follow-up is completed to ensure that the corrective actions are implemented and that the deficiencies are satisfactorily resolved.

- If there is a governing Board, the Board reviews the results of all monitoring or audit reports and periodically assesses the adequacy of corrective action. [Principle 17]

  Monitoring and auditing results are presented to the governing Board on an annual basis. The results of monitoring and audits are reviewed by the governing Board and the status of corrective actions is confirmed. In instances where corrective actions have not been fully implemented, the governing Board will provide the necessary oversight and follow-up to ensure that the corrective actions are taken.