

2020-001 Maintenance of Financial Reporting Systems

The County currently utilizes a centralized and computerized financial reporting system, which provides accurate and meaningful financial reports, incorporates controls and identifies corrective action, as necessary.

In September of 2020, the County contracted with The Abrahams Group to conduct a review of the County's financial and operational management and to assist the County with establishing financial policies and methods for budgetary forecasting.

Based on the review, the County plans implement a number of recommendations, including the adoption of formal policies in order to strengthen the County's financial management operations. The financial policies will reinforce internal controls to ensure any errors are corrected in a timely manner.

2020-002 Monitoring of financial activity/obligations and compliance with laws and regulations

The County has appropriate procedures in place, and is in the process of further implementing formal policies, to monitor the County's financial obligations and compliance with Massachusetts laws and regulations. Massachusetts law requires the County to adopt a budget approved by the Commissioners and the Advisory Board. The Commissioners present the recommended budget to the Advisory Board and the Advisory Board has the authority to approve, amend or reject the budget or any line item. Pursuant to M.G.L.A. 35 Section 28B, the Advisory Board may increase, decrease, alter and revise the proposed budget and any supplementary budgets in accordance with Massachusetts law.

Deeds Excise Funds

M.G.L.A. 64D Section 12(b) requires, with respect to funds appropriated for the purpose of the Registry's automation, modernization and operation (and which are not dedicated to the Deeds Excise Fund under a separate statute), the County to, each year when drafting the budget, include a continuing amount of expenditure of not less than 102.5% of the amount expended on automation, modernization and operation of the Registry in the preceding fiscal year.

In 2019, the Registry's expenditures were \$3,747,529.63. The County initially approved a fiscal year 2020 budget appropriation in the amount of \$4,248,759.81. The amount required by the above-referenced mandate was \$3,841,217.87. In 2020, the Registry spent \$3,558,790.62 (\$689,967 below the initial budget appropriation).

For some years, the County over-appropriated funds to the Registry, based on an erroneous interpretation of Section 12(b), to equal 102.5% of the prior year appropriation as opposed to expenditures, as required by the statute, which appropriations included amounts related to salaries

that were not needed due to vacant positions. This resulted in the Registry amassing a cash balance of \$4.5 million in their Deeds account.

Under M.G.L.A. 64D Section 12(a), not less than 40% of the amount deposited in the County Deeds Excise Fund, which represents the 10.625% of deeds excise taxes collected pursuant a separate statute, shall be expended for the automation, modernization and operation of the Registry. Amounts collected related to this 40% are used, first, to reimburse the County for indirect costs of the Registry, and second, remaining amounts are then used to cover the Registry's expenses for the year. This approach reduces the actual amount of County funds needed to cover the Registry's expenses. Accordingly, approximately \$3.2 million was needed to cover the Registry's remaining expenses for fiscal year 2020. The amount appropriated in the fiscal year 2020 second supplemental budget exceeds 102.5% of the Registry's fiscal year 2020 expenditures.

The Registry's expenses for fiscal year 2020 as calculated by the auditor is \$3,558,791, and as calculated by the County is \$3.2 million. The auditor considers expenses related to the Registry on a modified accrual basis of accounting, which may reflect expenses paid after the County's fiscal year end. However, the requirement in Section 12(b) relates to appropriating a certain amount for the Registry in the County's budget. Cash basis of accounting may be used for budgetary purposes. Discrepancies between generally accepted accounting principles and the budgetary basis of accounting may occur when statutes governing the budget process differ from generally accepted accounting principles.

The County does not expect this finding to be reiterated in subsequent audited financial statements since the action taken by the Advisory Board was corrective as necessary for fiscal year 2020. The auditor's finding is limited to its review of Section 12(b) and does not take in to account the discretion of the Advisory Board under M.G.L.A. 35 Section 28B.

Norfolk County Sheriff Department Unfunded Liability

The County retains and transfers the above-referenced annual deeds excise amount to the retirement system on an annual basis and such amounts are properly accounted for in accordance with Massachusetts law and the County's budget process, including such amounts related to interest.

An adequate accounting for these payments is available and the County has furnished such information to the auditor. The County will obtain such requisite information as needed from the retirement system on an on-going basis to continue to monitor and reconcile the payments associated with this obligation.

Maintenance of General Fund – Fund Balance

The County evaluates compliance with Massachusetts laws and regulations as appropriate during the preparation or amendment of its annual budget.

The County utilizes the undesignated fund balance through the supplementary budget process during each fiscal year or considers the undesignated fund balance during the budget process for the succeeding fiscal year.

The excess undesignated fund balance during fiscal year 2020 is attributable to the County's hiring and spending freeze in light of the COVID-19 pandemic.