

TOWN OF MASHPEE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2010



Certified Public Accountants

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To the Honorable Board of Selectmen
Town of Mashpee, Massachusetts

In planning and performing our audit of the financial statements of the Town of Mashpee, Massachusetts (Town) as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated March 17, 2011, on the financial statements of the Town.

The Town's written responses to the matters identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the Audit Committee, the Board of Selectmen and others within the organization and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads 'Sullivan, Rogers & Company, LLC'. The signature is written in a cursive, flowing style.

March 17, 2011

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Comments and Recommendations

Authorized Bank Account Signers

Comment

Through our audit confirmation procedures, we identified the Town's former Payroll Administrator and former Assistant Town Manager are listed as authorized signers on several Town bank accounts. The current condition creates a risk of unauthorized activities occurring in these bank accounts.

Recommendation

We have communicated the pertinent information to the Treasurer for the accounts referred to above. We recommend the Treasurer take action to remove the former Payroll Administrator and Assistant Town Manager as authorized signers on the applicable Town bank accounts.

We also recommend, on an annual basis, the Treasurer send confirmation letters to local financial institutions requesting they provide the Town with a list of authorized signers on all bank accounts held under the Town's tax identification number. This process will help identify accounts under the Town's identification number with unauthorized signers.

Management's Response

Of the two banks that reported former employees listed as authorized signers, one was a timing issue. The audit firm sent a confirmation while the Town was updating its signature cards. The process is now complete and the former employee has been removed from the account. The second bank has been contacted in regard to its signature cards. They are reviewing their records and will prepare new signature cards for those affected accounts. The process should be completed by mid-February, 2011.

Going forward, the Treasurer will verify the listing of authorized signers with each bank at the beginning of each fiscal year.

Kids Klub Enterprise Fund

Comment

We identified the following deficiencies related to the Kids Klub enterprise fund:

1. There are no policies and procedures in place to bill user fees and maintain an accounts receivable ledger with an efficient, automated system (i.e., Excel, Quickbooks, MUNIS, etc.). Currently, user fees are collected from program participants with no formal billing process. This creates the risk the Kids Klub may not be paid the proper amounts owed for services provided.

In addition, without a formal billing process, amounts owed for Kids Klub fees cannot be forwarded to the Town Accountant's office and recorded on the general ledger. As a result, monthly reconciliations of outstanding receivables cannot be performed between the Kids Klub and the Town Accountant's office. Proper internal controls require all receivables to be accounted for, and recorded on, the general ledger.

This comment was also reported in the fiscal year 2009 Management Letter.

2. During fiscal year 2010, the Kids Klub enterprise fund was not credited with investment income in the Town's general ledger. MGL Chapter 44, Section 53F1/2, requires enterprise funds to retain investment income on its deposits.

This comment was also reported in the fiscal year 2008 and 2009 Management Letters.

3. The Kids Klub does not maintain formal record keeping of enrollment and participation in their various programs. As a result, reconciliations between the number of program participants to program revenues cannot be performed. Such reconciliations would provide assurance that the proper amount of revenues are being collected and recorded for each program. In addition, historical enrollment and participant data would assist the budgeting process and estimating future revenues.

Recommendation

We recommend the Town:

1. Implement policies and procedures to bill user fees and maintain an accounts receivable ledger with an efficient, automated system. Once these policies and procedures are implemented, we recommend all bills be forwarded to the Town Accountant (monthly) so an accounts receivable can be recorded and maintained on the general ledger. Once this process is established, we recommend the Town Accountant and Kids Klub perform monthly accounts receivable reconciliations.
2. Allocate investment income to the Kids Klub enterprise fund monthly. The allocation should be based on the average daily balance of the fund's operating cash and the interest rate being earned in the Town's depository account.
3. Maintain formal record keeping of enrollment and participation in the various Kids Klub programs. Once this process is established, we recommend the Kids Klub perform monthly reconciliations between the number of program participants to program revenues.

Management's Response

After reviewing the recommendations of the Management Letter, the following procedures and policies have been established or corrected:

- 1) Policies and procedures have been developed to bill user fees and maintain accounts receivables through the use of an Excel worksheet and utilizing QuickBooks. These bills are forwarded to the Town Accountant on a monthly basis. The Town Accountant and the department's Administrative Secretary meet monthly to reconcile the accounts.
- 2) The Treasurer and the Town Accountant will review the activity in the Kids Klub Enterprise Fund on a monthly basis. Investment income will be credited to the account based upon the ending balance. The interest rate will be determined by market conditions.
- 3) All records are formally kept regarding enrollment and attendance in the programs by the office staff. The revenues and number of participants are reconciled monthly and discussed with the Director and the Town Accountant.

Transfer Station Cash Receipts

Comment

The transfer station maintains pre-numbered receipt slips to account for cash receipts. However, the transfer station does not have procedures in place to reconcile (or to document the reconciliation) the total receipt slips to the total amount of the related cash receipt turnovers to the Treasurer. While the transfer station performs calculations of the total receipt slips for each turnover, they do not document the reasons for discrepancies (if applicable) between the total receipt slips and the actual amount being turned over to the Treasurer.

Performance (and documentation) of these reconciliations, including documentation of discrepancies between total receipt slips and the total amount of the related turnover, provides assurance over the completeness and accuracy of cash receipts.

This comment was also reported in the fiscal year 2009 Management Letter.

Recommendation

We recommend the transfer station perform and document the reconciliation of the total receipt slips to the total amount of the related turnover. The documented evidence of the reconciliations must include (at a minimum):

- Explanations of discrepancies between the total receipt slips and the actual amount being turned over to the Treasurer
- A signature and date from both the preparer and reviewer of the reconciliations

Management's Response

The auditor's recommendations were implemented immediately once received on April 16, 2010. Receipt slips and collected monies are now reconciled separately for each day of operation and documented on the turnover. Any discrepancies are also noted. The turnover is signed by both the preparer and reviewer.

Student Activity Funds

Comment

The Town maintains student activity funds for the K.C. Coombs Elementary School, Quashnet Elementary School and High School. MGL Chapter 71, Section 47, which establishes various guidelines related to student activity funds, states the following:

“There shall be an annual audit of the student activity funds which shall be conducted in accordance with procedures as agreed upon between the school committee and the auditor based upon guidelines issued by the department of education.”

During fiscal year 2010, an audit or agreed upon procedures was not performed on the Town’s student activity funds. Based upon the MGL requirement and the inherent risks associated with student activity funds, we believe that the performance of an audit or agreed-upon procedures on the Town’s student activity funds would be prudent.

This comment was also reported in the fiscal year 2008 and 2009 Management Letters.

Recommendation

The Town has expressed interest in having procedures performed on the Town’s student activity funds. We have provided the Town with a quote to perform these services and would be pleased to discuss our quote in further detail with Town and School management.

Management’s Response

The Town Manager has executed a letter of engagement with the Town’s Auditor to complete a review of the Town’s student activity funds. The work is expected to get underway late winter/early spring.

Risk Assessment and Monitoring

Comment

When internal controls are *initially* implemented, they are usually designed to adequately safeguard assets. However, over time, these controls can become ineffective due to changes in technology, operations, etc. In addition, changes in personnel and structure, as well as the addition of new programs and services, can add risks that previously did not exist. As a result, all municipalities must periodically perform a risk assessment to anticipate, identify, analyze and manage the risk of asset misappropriation. Risk assessment (which includes fraud risk assessment), is one element of internal control.

The risk assessment should be performed by management-level employees who have extensive knowledge of the Town's operations. Ordinarily, the management-level employees would conduct interviews or lead group discussions with personnel who have knowledge of the Town's operations, its environment, and its processes. The risk assessment process should consider the Town's vulnerability to misappropriation of assets. It should also address operations that involve heightened levels of risk. When conducting the assessment, the following questions should be considered:

- What assets are susceptible to misappropriation?
- What departments receive cash receipts?
- What departments have movable inventory?
- What operations are the most complex?
- How could assets be stolen?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could potential misappropriation of assets be concealed?
- What prior internal control issues could still continue to be problematic?

Once the areas vulnerable to risks have been identified, a review of the Town's systems, procedures, and existing controls related to these areas should be conducted. The Town should consider what additional controls (if any) need to be implemented to reduce risk.

After risk has been assessed, periodic monitoring of the identified risk areas must be performed in order to evaluate the controls that have been implemented to mitigate the risks. Since control-related policies and procedures tend to deteriorate over time, the monitoring process ensures that controls are fully operational and effective.

This comment has been reported in the Management Letter since fiscal year 2004.

Recommendation

We recommend that management develop and implement a risk assessment program to periodically anticipate, identify, analyze, and manage the risk of asset misappropriation. The risk assessment program should be formally documented and become part of the Town's financial policies and procedures manual.

We recommend that management develop and implement a monitoring program to periodically evaluate the operational effectiveness of internal controls. The monitoring process should be documented in order to facilitate the evaluation of controls and to identify improvements that need to be made.

Management's Response

The Town's Financial Team has placed this as a priority and plans to have this program in place by the end of this fiscal year.

New Accounting and Financial Reporting Requirements for Fund Balances

Comment

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and to clarify the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that will be made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with loans receivable. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

Governments will also be required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements will be required.

This Statement also provides guidance for classifying stabilization funds on the face of the balance sheet and requires disclosure of certain information about stabilization funds in the notes to the financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

Implementation of this statement will improve financial reporting by:

- Providing fund balance categories and classifications that will be more easily understood
- Eliminating the *reserved* component of fund balance in favor of a *restricted* classification to enhance the consistency between information reported in the government-wide statements and information reported in the governmental funds financial statements
- Requiring governments to classify amounts consistently, regardless of the fund type or column in which they are reported
- Providing disclosures to give users information necessary to understand the processes under which constraints are imposed upon the use of resources and how those constraints may be modified or eliminated
- Reducing uncertainty about which resources can or should be reported in the respective governmental fund types

Given the significance of fund balance amounts (both quantitatively and qualitatively), the fund balance reporting under the new standard will have a significant impact on the Town's financial statements.

The Town's required implementation date of GASB Statement No. 54 is fiscal year 2011.

Recommendation

We recommend that management familiarize itself with GASB Statement No. 54 to prepare for its implementation. We would be pleased to assist the Town with its preparation for implementing the new standards.

Management's Response

The Town Accountant has familiarized herself with the reporting requirements of GASB Statement Number 54 and will be prepared to implement them for fiscal year 2011.