

TOWN OF MASHPEE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2013



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, 2013, 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. We also want to make you aware of a recently issued accounting standard that will significantly impact your financial statements in future years. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated January 6, 2014, 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.

January 6, 2014

TOWN OF MASHPEE, MASSACHUSETTS

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Comments and Recommendations

Reconciliations of Abandoned Property (Tailings)

Comment

In the fiscal year 2012 Management Letter, we recommended the Town implement policies and procedures to identify and resolve abandoned property in accordance with Massachusetts General Laws (MGL) Chapter 200A on a periodic (monthly, quarterly, semi-annually, annually, etc.) basis and to document all abandoned property procedures to provide evidence of compliance with the law. During fiscal year 2013, the Town implemented such policies and procedures.

However, we identified that as of June 30, 2013, the balance of abandoned property (i.e., tailings amount reported) in the Town's general ledger did not reconcile to the detailed balance (i.e., list of unclaimed checks) maintained by the Treasurer/Collector. The variance at June 30, 2013 totaled approximately \$13,800.

Proper internal controls require the reconciliation of all amounts reported in the general ledger to the appropriate supporting documentation.

Recommendation

We recommend the Town investigate and resolve the variance identified above in an appropriate manner.

We recommend the Town reconcile (monthly) abandoned property balances between the general ledger and the detailed listing maintained by the Treasurer/Collector.

Management's Response

The Treasurer/Collector and the Accountant are attempting to identify the reason for the variance in the tailings balance between the general ledger and detailed balance maintained by the Treasurer and take necessary measures to correct it. They will also perform monthly reconciliations to avoid future discrepancies.

Escrow Accounts

Comment

The Town maintains various escrow bank accounts (i.e., performance bonds, etc.) totaling approximately \$887,000 as of June 30, 2013. Similar to the prior year, we identified the following deficiencies related to escrow accounts:

- There are no formal policies and procedures in place to periodically review the status of the escrow accounts to determine if conditions have been met to return deposits to their rightful owner
- There are no formal policies and procedures in place to reconcile escrow balances between the bank accounts, the general ledger and the detailed records maintained by the various departments from which the escrow accounts were initiated. This increases the risk of irregularities and/or errors occurring and going undetected.

Recommendation

We recommend the Town implement policies and procedures to:

- Periodically (quarterly at a minimum) review the status of escrow accounts to determine if conditions have been met to return deposits to their rightful owner
- Reconcile (monthly) escrow balances between the bank accounts, the general ledger and the detailed records maintained by the various departments from which the escrow accounts were initiated

Management's Response

The Treasurer's office is outlining a policy for reconciling escrow accounts. The policy will include a reconciliation between the general ledger and bank accounts, as well as to the records held by other departments involved in the process. The policy will include frequent communication between the Treasurer and those departments to ensure all escrow accounts are being monitored and deposits are returned to the appropriate owner, in a timely manner, once conditions of the escrow have been met.

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.

In July 2011, the Town adopted an Anti-Fraud Policy as a component of its risk assessment and monitoring program.

Recommendation

We recommend 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 has formed a "Risk Assessment and Monitoring Team" consisting of the Treasurer, Town Accountant and Assistant Town Manager. The team has compiled a check list of items identified as possible areas vulnerable to risk as well as procedures expected to be followed in those areas. They have begun to meet with individual departments to review their processes, identify areas that need to be changed to avoid the risk of fraud/misappropriation and make recommendations to eliminate those risks. A follow up meeting will take place at a later date to ensure the department has implemented the changes as suggested. After the initial and follow up meetings have been conducted for each department, they will then be done on an annual basis.

Pension Accounting and Financial Reporting

Comment

In June of 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, which revises and establishes new financial reporting requirements for governments that provide pension benefits to its employees and retirees.

The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the Town will be required to recognize its long-term obligation for pension benefits as a liability in its government-wide financial statements.

The implementation of this Statement will also:

- More comprehensively measure the annual costs of pension benefits
- Place conditions on the use of the discount rate used to measure the projected benefit payments to their actuarial present value
- Require the use of the “entry age” actuarial cost allocation method, with each period’s service cost determined by a level percentage of pay (referred to as attribution method)
- Expand pension related note disclosures
- Expand pension related required supplementary information disclosures

The requirements of this Statement will improve the decision-usefulness of pension information in governmental financial statements and will enhance the comparability of pension information between governmental entities.

Given the significance of the pension fund liability, the financial reporting impact under the new standard will significantly affect the Town’s financial statements.

It should be noted that the implementation of GASB Statement No. 68 is strictly a financial reporting standard and does not constitute a state or federal mandate regarding the funding of the net pension obligation.

The Town’s required implementation date of GASB Statement No. 68 is fiscal year 2015.

Recommendation

We recommend management continue to familiarize itself with GASB Statement No. 68 to prepare for its implementation.

Management’s Response

The Town has been educating themselves with GASB Statement No. 68 and will be prepared for its implementation in fiscal year 2015.