

Draft 12/9/2011

***TOWN OF WAREHAM, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2011***

Draft 12/9/2011

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To the Honorable Board of Selectmen  
Town of Wareham, Massachusetts

In planning and performing our audit of the financial statements of the Town of Wareham, Massachusetts (the Town), as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We have identified these findings in the material weakness section of this report.

In addition, we became aware of other matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning the other matters.

We will review the status of these other matters and material weaknesses during our next audit engagement. We have already discussed these comments and suggestions with various Town personnel, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

December 15, 2011

# Draft 12/9/2011

## TOWN OF WAREHAM, MASSACHUSETTS

### MANAGEMENT LETTER

JUNE 30, 2011

### TABLE OF CONTENTS

#### PAGE

<b>Material Weakness</b> .....	<b>1</b>
Fiscal Year 2011 Overview .....	2
Inadequate Design of Internal Control Over Significant Accounts and Transaction Types.....	4
<b>Other Matters</b> .....	<b>10</b>
<i>Prior Year Comments</i> .....	11
Recording Activity Directly to Fund Balance.....	11
Formalize Capital Asset Reporting.....	11
Preparation of the Schedule of Federal Awards.....	12
Automation of Compensated Absences .....	12
Withholding Accounts.....	13
Internal Control Policies and Procedures Manual .....	14
Develop Written Disaster Recovery Procedures .....	14
Construction Deposits .....	15
Community and Economic Development Authority (CEDA) Loan Program .....	15
Fraud Risk Assessment .....	16
Chapter 90 Reimbursement .....	17
Tailings Procedures.....	17
Police Detail Receivables.....	18
Government Accounting Standards Board (GASB) Statement #54 .....	18
<i>Current Year Comments</i> .....	19
Student Activity Accounts.....	19
Audit of Health Insurance Plans .....	19
Chart of Accounts.....	20
Snow and Ice Appropriation .....	20
Cost Allocation Plan Between the Town and the School District.....	20

Draft 12/9/2011

# ***MATERIAL WEAKNESS***

## **Fiscal Year 2011 Overview**

For the past several years the Town has experienced turbulence in the operations of the accounting department which has resulted in the Town not being able to produce sufficient audit evidence supporting the balances contained in the FY2009 and FY2010 basic financial statements and therefore we had qualified our independent audit opinions. Although there still was significant turbulence in FY2011, we are pleased to report that the Town was able to provide us with sufficient audit evidence that allowed us to issue an unqualified audit opinion on the FY2011 basic financial statements.

We have reported several material weaknesses in internal control over each of the past three years. The primary weaknesses were concentrated within the Accounting Department due to the lack of reconciliations, general ledger maintenance, journal entry irregularities and lack of any documented policies and procedures. The audit qualifications are a direct result of these deficiencies which also led to an unknown variance of \$919,000 in FY2010.

Part of the accounting problems was due to the fact the general and subsidiary ledgers were not set up in a manner that would produce accurate information without the need for adjustments. The Town decided to establish new accounting ledgers in FY2011 that would be in compliance with the Commonwealth of Massachusetts Uniform Municipal Accounting System for Massachusetts communities. We agreed that this course would be in the best long-term interest of the Town. The new chart of accounts and fund structure was established by the former Town Accountant with the assistance of an outside consultant. Although the ledgers were vastly improved over the prior system, not all implementation problems were worked out during FY2011. The remaining issues are discussed in the body of this letter. The Town's decision to establish these new ledgers did contribute to the Town's ability to produce sufficient audit evidence that led to our unqualified audit opinion.

In April 2011, the Town and Town Accountant parted ways. Since that time, the Town has not had a permanent replacement for the Town Accountant. The Town has had periods with no Town Accountant, a period with an Interim Town Accountant and a period with an outside consultant acting as the Town Accountant. Even without a Town Accountant in place the Town was able to make payrolls, pay vendors and collect and report receipts. They have also made changes to the system to improve the process utilizing the new ledgers. What has not occurred was the requirement to reconcile the activity during FY2011 and therefore the material weaknesses are still reported.

The Town requested that we extend our audit procedures and complete a cash proof for FY2011 between the Accounting Ledgers and Treasurer's Cash Book. We proposed several adjustments to the ledgers and made suggestions for improvements to the accounting system and overall processes. The Town agreed with our proposed changes, corrected the ledgers and changed systems.

In FY2009, the Town was required to conduct a special audit of its Health Claims Internal Service Fund due to accounting errors that occurred over a period of several years. The Town corrected these errors in FY2009 and although there have been some adjustments required to the general ledger for FY2010 and FY2011 the financial statements have properly reported the activity of this fund for the past three fiscal years.

This letter will report many of the same material weaknesses reported for the past two years because they existed through most of FY2011. In order to evaluate whether sufficient changes were made subsequent to year end, we have performed limited procedures in FY2012 and found that the majority of the ledger issues have been corrected and there are no known roadblocks to reconcile the activity and balances. We expect that most of these material weaknesses will be eliminated in FY2012.

## Draft 12/9/2011

We strongly recommend that the Town continue to outsource the Accountant's duties until a qualified full-time Town Accountant can be hired. We recommend that the outside consultant provide documentation on the monthly reconciliation and establish written policies and procedures that will be continued once a new accountants in place. We also recommend that when a new Town Accountant is hired that sufficient resources be allocated for the consultant to transition the duties.

## **Inadequate Design of Internal Control Over Significant Accounts and Transaction Types**

Management must rely on the financial information generated by the Accountant's Office, the Treasurer's Office and the Collector's Office to make decisions that affect Town strategy in developing and meeting short-term and long-term financial goals. Consequently, management must be confident that the information they base their decisions on is complete and accurate. This confidence is gained when there is reasonable assurance that the internal control structure over cash, receivables, revenues and expenditures is of sound design and is functioning as intended.

Each of the Offices noted above plays a key role in developing and monitoring of a sound internal control structure. These roles are summarized as follows:

- The Accountant's Office is responsible for establishing and maintaining procedures to assure that 1) all Town receipts and disbursements are properly authorized and accurately and timely recorded in the general ledger and 2) all journal entries are properly recorded and all have complete supporting documentation.
- The Treasurer's Office is responsible for establishing and maintaining procedures to 1) properly safeguard the Town's cash and investments and 2) assure that all receipts and disbursements are reported accurately and timely.
- The Collector's Office is responsible for establishing and maintaining procedures to 1) assure all bills submitted to the Office are collected as quickly as possible 2) secure the Town's interest in property for delinquent taxes and 3) process receipts promptly in order to maximize cash flow and investment earnings.

Considering these general roles, our review of the internal control structure of these Offices revealed the following deficiencies:

- The Town Accountant was unable to reconcile the balances of the general ledger control accounts to the subsidiary ledgers. We noted numerous posting errors due to establishing automatic entries that did not link ledger accounts properly. We also found other issues within the general ledger such as journal entries being posted directly to the control accounts, beginning balances improperly rolled forward and many funds whose reporting was inadequate and unreliable due to linking issues between account types and funds which caused the reporting to be undependable to make informed management decisions on. This was a material weakness in fiscal years 2009 and 2010. In fiscal year 2011, a new chart of accounts was implemented with the intent to eliminate these types of errors. We were told by the former Town Accountant that the ledger now conforms to the Uniform Municipal Accounting System and that all linking issues have been addressed. When we started the audit for fiscal year 2011 these types of errors still existed and are still considered a material weakness.

The process used by the Town to implement the new chart of accounts by previous Town Accountant did not include steps for others to independently test and review the chart to minimize these types of errors. Many of the link errors were not discovered until the year end audit process. Other types of errors in posting should have been found during the normal monthly closing process, due to this process not occurring, and they were not discovered or corrected timely.

- Current Status – As part of the audit we proposed changes to correct the linking issues and proposed journal entries to correct account balances. The Town agreed with our proposed changes and made these adjustments. We believe that the fiscal year 2012 ledgers have been changed to properly link the automated entries and the Town expects that the material weakness will be resolved in fiscal year 2012.

# Draft 12/9/2011

- In fiscal year 2010, the former Town Accountant made adjustments to revenues, expenditures and fund balances of various special revenue accounts via a journal entry to tie into support maintained by various other departments. These journal entries were unsupported and made for the purpose of having the general ledger tie to departmental records without regard for whether the entry was proper. These entries not only changed the activity balances but changes the actual cash balances. This was one of many major causes for cash variance reported in fiscal year 2010. In fiscal year 2011 we did not find this type of entry, but we also found that for most of the fiscal year there was substantial effort to reconcile the general ledger balances to departmental records until the end of the fiscal year. We were informed in the spring that the former Town Accountant did not allow departments to have access to view their activity on the new general ledger. When the Town Administrator became aware of this he immediately instructed that changes be made to access to the system once the correct security profiles were established. Before that occurred the Departments were unable to assist in the monthly reconciliation of the accounts under their control. The lack of timely reconciliations continued to be a material weakness in fiscal year 2011.
  - Current Status – The Town Administrator is requiring monthly reconciliations be performed and documented between Accounting and all other Departments for fiscal year 2012. If errors are found during the reconciliation process then correcting adjustments are warranted. The Town expects that this material weakness will be resolved in fiscal year 2012.
- In fiscal year 2010, we observed an inordinate amount of unsupported journal entries being posted to the Town's general ledger. In fiscal year 2011, the number of unsupported journal entries were significantly reduced however even one unsupported entry is a weakness in internal control. All journal entries must be able to stand on their own and the purpose for the entry must be apparent to a third party reviewing the activity. All journal entries require proper approval, explanation and supporting documentation. Journal entries can be the means to perpetrate a fraud or cover errors.

The accounting system used by the Town has two types of journal entries that are explained in the user's manual. One type would automatically post to all linked accounts and the other type would not. The distinction between the types of entries to use when posting is critical. We found that many times the importance of that distinction was not understood which directly led to compounding the number and complexity of the initial error the journal entry was expected to correct.

In our prior management letters, we commented that the volume of journal entries was excessive and we were informed that it was mainly due to linking and ledger issues. We expected that the volume of journal entries to be reduced with the implementation of the new general ledger. We were scheduled to begin the year end phase of our audit in September but a week before we were scheduled to start we were informed by the acting Town Accountant that multiple Town Departments presented approximately 500 requests for changes to the fiscal year 2011 activity. The acting Town Accountant needed over one month to review the requests and to post the correcting journal entries to the ledger. This delayed not only the audit but the Town's year end closing and required reporting to the State.

There are several problems with this process. The first problem is the timing of presenting these entries two months after year end. These requests were not solely for errors in activity for June but covered the entire fiscal year. Material weaknesses in internal control occur when errors are either not detected in a timely manner but also when they are not corrected in a timely manner. Therefore, if an undetected or uncorrected error was not found or adjusted timely, then all interim reports would be misleading. The Town has the authority to make year end transfers to cover minor deficits in appropriations in June and early July. By not having these adjustments posted timely the integrity of this year end process is compromised.

# Draft 12/9/2011

The next problematic issue is the purpose for these entries. The accounting system used by the Town, along with most systems, is designed to minimize the need for any journal entries. Recording the transaction properly and charging it to the correct account at its inception is the most efficient and accurate means of recording the Town's financial activity. For example, when a receipt is received it is entered into the system and credited to the correct revenue account/fund. When employees or vendors are paid the expenditure is to be charged to the account/fund that incurs the expense. The only need for a journal entry is to correct errors, which should be minimal. If there is a need for a significant number of corrections to the original transactions there is a material weakness in the design of the accounting process. If the Accounting Office finds that journal entries are needed frequently, an immediate review of the policies and procedures surrounding the transaction type in question should be performed to isolate where the deviation from prescribed policies and procedures is occurring and what the correct fix should be. Until this process is changed then a material weakness will continue to exist.

- Current Status – As noted above, the number of journal entries decreased in fiscal year 2011, however the number posted in 2011 was still at an unacceptable level. The majority of fiscal year 2011 journal entries posted were maintained with appropriate supporting documentation however, polices surrounding what is acceptable documentation should be addressed and the journal entry policy updated accordingly. We are aware some changes have been made in fiscal year 2012, but have not seen enough evidence to comment as to whether management expects the material weakness to be resolved.
- Cash reconciliations between the Treasurer's records and the general ledger did not occur within fiscal year 2010 and the end result was a \$919,000 unresolved variance. Internal control procedures should be designed in a manner that ensures all activity is recorded in the cash book prepared by the Treasurer as the transactions occur. At the same time, as the activity is being posted to the cash book a corresponding posting would be made to the general ledger maintained by the Town Accountant. The cash book balance and the general ledger cash balance should match at all times. At the end of each month, the Treasurer would complete the reconciliation between the cash book and bank statements. The Treasurer and Town Accountant would then reconcile the cash book to the general ledger balance.

As was the case in prior years, the Treasurer's Office continued to reconcile the cash book to the respective bank and investment balances on a timely basis each month. The Treasurer is responsible for recording the cash received into the general ledger and during fiscal year 2011 and we found that substantially all activity was properly posted without need for adjustment. We found that the payroll and vendor disbursements records maintained by the Treasurer's Office to be accurate and provided a sufficient audit trail that would allow for reconciliation to the general ledger.

The continued material weakness is the result of the Accounting Office not performing a reconciliation of all activity between the general ledger and cash book of the Treasurer. We found that the former Town Accountant did not communicate adequately with Treasury personnel to obtain and utilize the cash book to reconcile the activity. As mentioned above, the significant volume of journal entries to cash that were not supported or used the wrong type of entry created uncertainty in the balances. The Town requested that we extend our audit procedures to complete a cash proof for fiscal year 2011. This was accomplished and we proposed journal entries and system changes to correct the errors. What we found was that most receipts, vendor warrants and payroll warrants that were posted to the ledger tied into the cash book. This indicates the system is operating as designed. The major variances related to journal entries recorded in the first eight months of the fiscal year that required correction. The number of errors that needed correction was significantly reduced in the last part of the fiscal year.

- Current Status – The only way to eliminate this material weakness is to first design policies and procedures on the cash reconciliation process that identify persons responsible for each procedure. The next step is to implement the process.

# Draft 12/9/2011

- Receivable reconciliations were not performed between the Collector's records and the general ledger during fiscal years 2010 and 2011. Reconciling both the activity and the ending balances of the accounts receivable is an integral control procedure over the most significant revenue sources of the Town. This omission of reconciliations does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the course of their normal duties. In simpler terms, the Town's ability to obtain the objectives of a proper system of internal controls is inhibited. Furthermore, the Town has lost the ability to ensure that key assets and revenue sources are adequately safeguarded. We observed numerous 2010 journal entries being used to bring the general ledger balances in line with the Collector's balances, these entries were unsupported and do not constitute a reconciliation.
  - Current Status – We noted that reconciliations did not occur during fiscal year 2011, numerous adjustments we required to properly state the receivable balances as of June 30, 2011. The only way to eliminate this material weakness is to first design policies and procedures on the reconciliation process that identify persons responsible for each procedure. The next step is to implement the process.
- Management was not able to provide an accurate reconciliation between the authorized town meeting votes, the tax recap, budget transfers and the budget recorded within the general ledger. The Town is responsible for monitoring the approved budget and assuring that funds are available to cover the appropriations and that the level of spending is in line with the amounts authorized at town meeting. The lack of procedures in place to reconcile the approved votes to the tax recap and the general ledger can lead to a situation in which line items are overspent, unallowable costs are paid, and department heads do not have accurate information to monitor current operations.
  - Current Status – Again in fiscal year 2011, the Town was not able to provide an accurate reconciliation of town meetings votes, to the budget transfers and the final budget per the tax recap and the budget recorded in the general ledger. The only way to eliminate this material weakness is to first design policies and procedures on the reconciliation process that identify persons responsible for each procedure. The next step is to implement the process.
- The Town does not have proper controls or reconciliation procedures in place to account for betterments. During fiscal year 2010, the Town contracted for outside help to assist in developing a comprehensive listing of all betterment receivables outstanding as of June 30, 2010. As a result of this project, the records maintained by all involved departments were adjusted however no formal reconciliation procedures were implemented or documented.
  - Current Status – During fiscal year 2011, numerous errors and double posting of activity and balances occurred to the betterment accounts maintained within the general ledger. Some of the error related to beginning balances while others related to undetected linking problems in the new chart of accounts. These errors would have been apparent if any type of account review or reconciliation to the records maintained by the Assessor's Office was performed during the year. These errors were not discovered or corrected until after we began our year end audit procedures. Correcting journal entries have been provided to the Town and recorded for financial statement purposes. The only way to eliminate this material weakness is to first design policies and procedures on the reconciliation process that identify persons responsible for each procedure. The next step is to implement the process.

# Draft 12/9/2011

- The Town established a Self-Insured Health Insurance Trust Internal Service Fund in FY2005 to account for all of the Town's health and dental claims activities. Although we assisted the Town with a complete audit of this fund during fiscal year 2009, we noted that numerous corrections to the fund were necessary as of June 30, 2010 and June 30, 2011. We continue to recommend that management establish separate accounts within the general ledger for all of the revenue and expense types and reconcile the activity posted to this fund on a monthly basis, as well as, maintaining this fund on the full accrual basis of accounting as noted below.

- Current Status –

1. Numerous adjustments were required to properly state the activity of internal service fund as of June 30, 2011. The Town is not correctly allocating amounts that represent employee and employer contributions. Also, there is not a consistent allocation based on the current employee versus employer split of 75/25.
2. The Town's chart of accounts needs to be expanded to properly track and account for all expenses of the internal service fund. At a minimum, expense accounts should be setup for health care level premiums to each vendor, catch up contributions by vendor, dental care costs, legal services, consultant fees, etc.
3. The Town's chart of accounts needs to be expanded to properly track and account for all revenues of the internal service fund. At a minimum, there should be a revenue account for each type of activity that is posted to the fund such as; employee contributions; employer contributions; stop loss reimbursements; drug subsidies; investment income; COBRA payments. Although the new chart has some of the mentioned revenue accounts, procedures must be implemented to assure that the accounting for each type of revenue is correct.
4. The Town should be maintaining this fund on the accrual basis of accounting and therefore recording and updating each year; Incurred But Not Reported Claims; prepaid employee withholdings; working capital deposits; any receivables/liabilities for amounts due/owed related to the difference between level funded premiums paid and the actual claims paid.
5. The balance and activity of the health claims internal service fund are properly reported on the financial statements and the employee/employer share of net assets has been calculated.

## **Summary**

In summary, the objectives of an internal control structure are to safeguard the assets of the Town and provide reasonable assurance that transactions are executed in accordance with management's authorization and recorded properly in the Town's ledgers. The omission of one or more elements of internal control can compromise the Town's ability to obtain these objectives. We have concluded that the deficiencies noted above, individually and collectively, represent material weaknesses in the Town's system of internal control under standards established by the American Institute of Certified Public Accountants.

These deficiencies constitute being classified as material weaknesses because they represent significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Town's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Furthermore, we believe that the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities

## Draft 12/9/2011

in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

The Town has implemented a new general ledger fund and account structure starting in FY2011. Along with this, the Town has made adjustments to correct opening balances and has hired a consultant firm to act as the Town Accountant. Any further variances in the general ledger and reconciliations with the departments will rest solely with current management. It is imperative that management work together to reconcile the activity on a timely basis and report any problems or errors immediately to the Town Administrator and acting Town Accountant.

***OTHER MATTERS***

**Prior Year Comments**

**Recording Activity Directly To Fund Balance**

Prior Comment

We noted that a significant number of transactions were recorded directly to fund balance accounts within the general ledger rather than the subsidiary revenue and expenditure ledgers.

Recording amounts directly to fund balance prevents the general ledger from reporting an accurate and complete accounting of all financial activity and circumvents the budgetary controls in place in the appropriation ledger. Consequently, numerous fund balance accounts had to be manually analyzed to report all revenues and expenditures. Such a process significantly inhibits timely and accurate internal financial reporting and external reporting under the GASB 34 model and reporting to the Department of Revenue.

Recommendation

We recommended that no activity be recorded directly to fund balance accounts other than standard year end closing journal entries.

Current Status

During fiscal year 2011, activity was not recorded directly to fund balance. This comment is considered resolved.

**Formalize Capital Asset Reporting**

Prior Comment

The Town has previously relied on the assistance of their audit firm to assist in maintaining its capital assets activity and detailed listing.

The Town has no procedures in place to account for fixed asset additions, deletions, disposals or transfers. Compliance with GASB #34 requires the Town to maintain a complete and accurate fixed asset listing.

Recommendation

We continue to recommend that management take on the responsibility to develop and implement procedures to track additions, deletions, disposals and transfers of fixed assets so that an accurate fixed asset listing in compliance with GASB #34 can be maintained.

Current Status

No fixed asset policies and procedures were implemented during fiscal year 2011.

## **Preparation of the Schedule of Federal Awards**

### Prior Comment

As part of the annual Single Audit, the Town is required to prepare and file a Schedule of Expenditures of Federal Award Programs with the Federal Audit Clearinghouse and the Department of Revenue. To meet this reporting requirement the following information is necessary:

- Detailed information on all Federal Awards received.
- The agency in which the funds were received from.
- The Catalog of Federal Domestic Assistance number (CFDA #) of each grant.
- The amount of funds expended in the fiscal year under audit.

The Town was unable to provide this information for the fiscal years ended June 30, 2009 and 2010.

As a result there is a risk that the Town would not be able to meet filing requirements related to this information and that the information reported within the Report on Federal Award Programs could be inaccurate or not include all of the grants required to be reported. For the fiscal year ended June 30, 2010, we assisted the Town Accountant's Office in compiling the necessary information to meet all federal and state reporting requirements.

### Recommendation

We continue to recommend that the Town Accountant's Office work with all department heads to develop a comprehensive listing of all Federal awards the Town receives, where they are being recorded in the general ledger and establish procedures to allow for the compiling of this information in a timely manner each fiscal year. As part of the new fund and account structure being developed the Town should determine if it is possible to add a segment to the account structure that identifies federal and state grants.

### Current Status

The Town has implemented the use of a new chart of accounts in fiscal year 2011 that breaks out Town and School federal grants. However, the chart is just a tool, management must implement procedures to account for all current and future federal grants and the related information required to complete the Report on Federal Award Programs.

## **Automation of Compensated Absences**

### Prior Comment

The records for accrued compensated absences are maintained primarily by Department Heads and the Town Administrators Office on individual employee cards. We believe there is a need for the Town to centralize the system of tracking and accruing compensated absences to ensure compliance with the multiple union contracts and other employment agreements. The present system does not minimize the risk that time earned and taken will not be recorded properly.

The employee cards are sent to each employee on a semi-annual basis for their review. At fiscal year end, the cards are summarized on a spreadsheet for audit accrual purposes. However, the spreadsheet does not account

# Draft 12/9/2011

for buyback provisions, vesting schedules or other adjustments necessary to determine the most accurate estimate of the required liability.

Since the Town has converted its payroll functions to Harpers, it is possible to record and monitor the compensated absences liability through the payroll system. This would provide greater internal control over accumulated sick and vacation time.

## Recommendation

We continue to recommend that the Town implement a centralized system for recording and monitoring compensated absences and explore the benefits of utilizing the package available through the Harpers payroll system.

## Current Status

There has been no change in the way the Town is accounting for compensated absences during fiscal year 2011.

## **Withholding Accounts**

### Prior Comment

The payroll withholding liability accounts do not appear to be reconciled on a monthly or quarterly basis. The balance in each withholding liability account should represent amounts withheld from employees but not yet paid out. This is usually one week to one month worth of withholding, depending on the type of withholding. These accounts should be reconciled on a regular basis to ensure all withholdings are being properly paid out and properly charged to the withholding account. During our audit we have noticed that many of the withholdings accounts have debit balances. Therefore, it appears that the Town has made a number of overpayments from these accounts causing the debit balances.

### Recommendation

We continue to recommend that the procedures be implemented to ensure that correct amounts are paid from the withholding accounts and that the accounts are reconciled in a timely manner.

### Current Status

During FY2011, no reconciliation procedures were implemented regarding the payroll withholding accounts. Also, there were multiple adjustments necessary to properly state the balances as of June 30 for financial statement purposes.

## **Internal Control Policies and Procedures Manual**

### Prior Comment

We noted that most departments do not maintain a formal internal control policy and procedures manual documenting day-to-day processing and controls. The Town is at risk if critical tasks cannot be completed due to an extended or unforeseen absence. A formal internal control policy and procedures manual will assist each department head in the training of new departmental employees thereby reducing the amount of time required away from the daily departmental operations.

### Recommendation

We continue to recommend that each department head develop an internal control policy and procedures manual that includes proper reviews and approvals by management. The document should be written with sufficient detail to allow a new employee the ability to complete the task by reviewing its respective directions. This document should be updated for any system or policy changes. A master manual of all procedures should be maintained and stored in a secure location. In addition, all department heads should be familiar with all policies and procedures within their office and be able to complete all necessary tasks in order to sufficiently train employees.

### Current Status

Various departments have started the process of documenting their policies and procedures. Management expects this process to continue with the goal of being completed during fiscal year 2012.

## **Develop Written Disaster Recovery Procedures**

### Prior Comment

The Town does not have well-defined, written disaster recovery procedures. The time to make contingency plans is before disaster strikes, so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing IT facilities.

### Recommendation

We continue to recommend that management develop a disaster recovery plan that includes, but is not limited to, the following matters:

1. Location of, and access to, off-site storage.
2. A listing of all data files that would have to be obtained from the off-site storage location.
3. Identification of a backup location (name and telephone number) with similar or compatible equipment for emergency processing. (Management should make arrangements for such backup with another organization, a computer vendor, or a service center. The agreement should be in writing.)
4. Responsibilities of various personnel in an emergency.
5. Priority of critical applications and reporting requirements during the emergency period.

### Current Status

The Town voted to fund the Computer Virtualization Project. This project is designed to address all aspects of a disaster recovery program. Management expects this to be completed during fiscal year 2012.

## **Construction Deposits**

### Prior Comment

Various departments receive deposits from developers as surety accounts on building projects. The deposits are placed into a bank account, in which the Treasurer and the developer have signing authority. When a project is completed and the developer has satisfactorily fulfilled his obligation, or as phases are completed, the Board overseeing the project may vote to release funds to the developer. If the developer does not complete a project satisfactorily, the Board may vote to use the funds in the account to complete the project or compensate the Town for the insufficient work.

We noted that there are no reconciliation procedures between the various Boards, the Treasurer's Office and the Town Accountant's Office. This could lead to a situation in which monies have been paid out to a developer from the general fund and the monies were never transferred from the construction deposit account to replenish the Town. Therefore, there may be a transfer due to the general fund which would increase the free cash of the Town.

### Recommendation

We continue to recommend that the Treasurer's Office, the Town Accountant's Office and the various Boards responsible for overseeing these deposits implement reconciliation procedures on a monthly basis.

We also recommended that a review of all accounts that have bank balances be completed to determine if a liability still exists and/or if any correcting entries are necessary.

### Current Status

During fiscal year 2011, we noted the Town is working on reconciling the construction deposit accounts, however, no formal procedures were implemented during the fiscal year. We also noted that there are accounts reporting a deficit balance as of June 30, these accounts should be researched and appropriate adjusting entries recorded.

## **Community and Economic Development Authority (CEDA) Loan Program**

### Prior Comment

The CEDA office administers housing rehabilitation loans to residents of the Town of Wareham. There are two types of loan programs that this office administers which are based on income eligibility. An applicant that is considered to be very low income is eligible for a 15 year deferral loan which 1/15 of the principal is forgiven in each year until the 15 year period has expired. An applicant considered to be low/moderate income is eligible for a 15 year low interest loan in which a principal payment and 3% interest is due each year.

The detailed records of the CEDA office have not been reconciled to the Town Accountants detail since fiscal year 2009. Not reconciling the accounts can cause a situation where the Town could not collect the total loan owed. The Town could potentially lose out on program income which is used to help fund these loan programs.

## Recommendation

We continue to recommend that the CEDA office reconcile detailed balances within the CEDA office and then with the Town Accountant. Procedures should be implemented to reconcile all balances on at least a quarterly basis.

## Current Status

We have assisted the Town in proposing correcting journal entries as of June 30, 2011. There has been no formal reconciliation procedures implemented during the current fiscal year.

## **Fraud Risk Assessment**

### Prior Comment

The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Town perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Town's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the Town that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Town, its environment, and its processes. The fraud risk assessment process should consider the Town's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- What individuals have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- What assets of the Town are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.

# Draft 12/9/2011

## Recommendation

We continue to recommend that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation.

## Current Status

A fraud risk assessment program was not developed or implemented during fiscal year 2011.

## **Chapter 90 Reimbursement**

### Prior Comment

In previous audits, we noted the Town did not have a system in place to submit requests for reimbursement timely, which contributed to a year end deficit in the fund.

### Recommendation

We recommended the Town request reimbursements for Chapter 90 project expenditures in a timelier manner.

### Current Status

Procedures were implemented during fiscal year 2011 to request reimbursements in a timelier manner. This comment is considered resolved.

## **Tailings Procedures**

### Prior Comment

We noted that when the Treasurer's Office is moving checks to tailings they are going into the general ledger and voiding the original check. This has the effect of reducing the expenditure and increasing cash, Accounting personnel then records a journal entry to debit the tailings liability and credit cash. This has the effect of understating general ledger cash, liabilities and expenditures.

### Recommendation

We continue to recommend the Town follow prescribed UMAS procedures for handling tailings. The Town should work with their software vendor to fully understand the process of voiding checks for the purpose of tailings. A review should also be completed for all past tailings entries and make adjusting entries as necessary.

We also recommend that reconciliation procedures be implemented between the Treasurer's Office and the Town Accountant's Office.

### Current Status

During fiscal year 2011, no new checks were brought into tailings. The Treasurer's Office has followed the Abandoned Property Laws and has moved \$13,000 out of tailings. There is a variance of \$2,400 between the records maintained by the Treasurer's Office and the Town Accountant's Office. There are currently no formal reconciliation procedures in place.

## **Police Detail Receivables**

### Prior Comment

Currently there are no formal reconciliation procedure between the Police Department and the Town Accountant's Office for police detail receivables. The summary outstanding balance reported in the general ledger should be reconciled each month to the detail maintained by the Police Department. It is important to maintain an accurate receivable balance and detail listing so the Police Department can track down delinquent vendors prior to providing any further details. Also, by maintaining an accurate receivable listing, the Town can minimize the possibility of creating a permanent deficit that ultimately would have to be funded by the general fund.

As of June 30, 2011, there is a variance of approximately \$16,000 between the general ledger and the listing provided by the Police Department. We also noted that many vendors are behind on making payment to the Town. The Town should consider implementing collections procedures to keep these payments current. A correcting entry has been provided to the Town Accountant's Office.

### Recommendation

We continue to recommend that the Police Department and the Town Accountants Office reconcile the police detail balance and general ledger activity on a monthly basis. We also recommend that the Police listing be reviewed and any vendors with old outstanding balances be contacted to initiate collection and/or withhold further details until the old receivables are collected.

### Current Status

No reconciliation procedures were implemented during fiscal year 2011.

## **Government Accounting Standards Board (GASB) Statement #54**

### Prior Comment

In February 2009, the GASB issued Statement #54, *Fund Balance Reporting and Government Fund Type Definitions*, which is required to be implemented in fiscal year 2011. 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 by clarifying 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.

### Recommendation

As it appears that this GASB Statement will significantly impact the fund balance classifications presently reported, we recommend that management begin to study and evaluate these changes for financial statement reporting and disclosure purposes, and to formulate plans to be used in explaining these changes to interested parties within the Town and to the external users of the Town's financial statements.

### Current Status

The Town is in compliance with the requirements of GASB Statement #54 as of June 30, 2011.

## **Current Year Comments**

### **Student Activity Accounts**

#### Current Comment

The Treasurer's Office and the Town Accountant's Office periodically reconcile the Student Activity accounts. Adjustments are made on a semi-annual basis to transfer funds from the Student Activity Savings account to the depository account to fund replenishments. However, in order to properly reflect the cash in the Student Activity accounts, this process must be done on at least a quarterly basis.

We also noted that student activity checking account reimbursements are being processed and funds are being moved within bank accounts prior to the approval and processing of the warrant. This should not occur prior to approval of the warrant. This process also creates a cash variance between the general ledger and the Treasurer due to the fact that the checking accounts are not maintained as part of the cashbook and the general ledger.

#### Recommendation

We recommend that the Treasurer's Office reconcile the Student Activity bank accounts at least quarterly to the general ledger and transfer the necessary funds to cover replenishments and properly state the Student Activity cash balances.

We also recommend that replenishments of student activity checking accounts do not take place until the approval and processing of the warrant.

### **Audit of Health Insurance Plans**

#### Current Comment

We noted that the Town does not currently perform periodic audits of the health insurance enrollment to determine eligibility of the current subscribers. As a result, there may be individuals receiving health care benefits that are not eligible to be enrolled in the Town's health care plan. Having ineligible subscribers enrolled in the plan would have an adverse affect on health insurance premiums for the Town and eligible subscribers.

#### Recommendation

We recommend that the Town adopt a policy requiring monthly spots checks and semi-annual audits of the health care plan enrollment to verify eligibility of the subscribers.

## **Chart of Accounts**

### Current Comment

Through our audit we noted that there are multiple link issues with the new chart of accounts relating to accounts receivables. When a cash receipt is posted only the cash and revenue side of the entry was being recorded, the reduction in deferred revenue and accounts receivable was not occurring in many instances. Correcting journal entries have been provided and recorded for financial statement purposes.

We also noted that there are a handful of funds that appear to have been setup twice and have revenues going into one fund, while expenditures are being recorded to another fund. A listing of the noted funds has been provided to the Accounting Office.

The budgeted amounts posted to the revenue and expenditure ledgers were made at the summary level and not at the individual line item. By posting the budgeted amounts at a summary level instead of on a detailed level, departments will have a more difficult time managing their operations and it will be more difficult to evaluate revenue collections against the estimate.

### Recommendation

We recommend that the noted link, duplicate funds and budget posting issues be corrected in fiscal 2012.

## **Snow and Ice Appropriation**

### Current Comment

The Town is allowed, under MGL, Chapter 44, Section 31D, to over-expend the budget for the removal of snow and ice, as long as the appropriation for each fiscal year is at least equal to the prior year's appropriation. Any deficits created from this are raised in the subsequent fiscal year.

The Town generally budgets the minimum amount for snow and ice removal based on the prior year's budget. Although this amount is difficult to predict, budgeting low each year causes the Town to raise substantial snow and ice deficits on the subsequent year's tax recap. Although the practice of under-budgeting for snow and ice removal is legal, it does not demonstrate prudent budgeting practices.

### Recommendation

The Town should establish budget policies to incorporate realistic estimates for the removal of snow and ice in the initial Town Budget. The amount budgeted does not have to be the worst case but could be the rolling average of the last three or five years of actual expenses.

## **Cost Allocation Plan Between the Town and the School District**

### Current Comment

Certain Town-wide expenses such as employee benefits, treasury, accounting, retirement benefits, and various insurances are allocated to the School District using methodologies that have been in place for many years. The Department of Elementary and Secondary Education (DESE), which is the oversight agency for the District, requires that a written agreement that documents the School Committee and Municipal Official's methodologies be used when allocating, distributing or assigning municipal expenditures to the District. While inquiring about this written agreement during our recent audit we were informed that a written agreement has never been drafted.

# Draft 12/9/2011

## Recommendation

In order to comply with the DESE requirement and to ensure that allocations made to the School District are proper and agreeable between the parties, we recommend that that a written agreement documenting the process be developed and implemented. It is important to understand that an allocated expense is never an exact amount when compared to a direct charge but instead should consistently calculate a reasonable charge that is fair and expected.

The benefit of implementing these recommendations will be the assurance that the general fund is not subsidizing the School's operations and that the Town has a documented sound policy that can be used to balance future budgets.