

DRAFT

TOWN OF WAREHAM, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2010

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, 2010, 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. In addition, because of inherent limitations in internal control, including the possibility of management's override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

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.

We also 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 suggestions concerning the material weakness and other matters.

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.

DRAFT

March 25, 2011

TOWN OF WAREHAM, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2010

TABLE OF CONTENTS

	PAGE
Material Weakness	1
Inadequate Design of Internal Control Over Significant Accounts and Transaction Types	2
Other Matters	5
<i>Prior Year Comments</i>	6
Recording Activity Directly to Fund Balance	6
Formalize Capital Asset Reporting	6
Preparation of the Schedule of Federal Awards	7
Automation of Compensated Absences	7
Student Activity Accounts	8
Withholding Accounts	8
Internal Control Policies and Procedures Manual	9
Develop Written Disaster Recovery Procedures	9
Construction Deposits	10
Deposit and Investment Policy	11
Community and Economic Development Authority (CEDA) Loan Program	11
Fraud Risk Assessment	12
<i>Current Year Comments</i>	13
Chapter 90 Reimbursement	13
Tailings Procedures	13
Police Detail Receivables	13
Government Accounting Standards Board (GASB) Statement #54	14

MATERIAL WEAKNESS

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 link issues within the general ledger, journal entries being posted directly to the control accounts and many funds whose reporting was inadequate and unreliable due to linking issues between account types and funds which causes the reporting to be undependable to make informed management decisions on. This was an issue in fiscal years 2009 and 2010, we have been informed by management that the new chart of accounts implemented in fiscal year 2011 conforms to the Uniform Municipal Accounting System and that all linking issues have been addressed.
- As part of the analytical review of the Towns 2010 general ledger we noted that revenues, expenditures and fund balances of various special revenue accounts were adjusted via a journal entry to tie into support maintained by various other departments. First, a journal entry with no support which simply alters the balance does not constitute a reconciliation process, second fiscal year 2011 activity reports were used to make some the journal entries. This should have immediately thrown up a red flag to the accounting personnel responsible for recording the journal entries in question. As a result of our uncovering this practice, we assisted the Town in conducting a complete review and reconciliation of the records maintained at the department level to the activity and balances maintained in the general ledger. This process has uncovered over 40 correcting entries that will be necessary to post into the general ledger and it is clear that no formal or timely reconciliation procedures are occurring between the various departments and the Town Accountant's Office.

- We observed an inordinate amount of unsupported journal entries being posted to the Town's general ledger. All journal entries need proper approval, explanation and supporting documentation. Also, journal entries should not be used as a recurring means of recording activity in the general ledger, they should be minimal and used for isolated instances that require an adjustment to or correction of a previously recorded transaction. 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.
- Cash reconciliations between the Treasurer's records and the general ledger did not occur within fiscal year 2010. 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 Accountant would then reconcile the cash book to the general ledger balance. There is a material variance of \$919,000 between the Treasurer's records and the general ledger as of June 30, 2010.
- Receivable reconciliations were not performed between the Collector's records and the general ledger during fiscal year 2010. 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 revenues sources are adequately safeguarded. We observed numerous 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.
- 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.
- 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.
- 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. 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.

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 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.

As a result of the multitude of errors discovered with in the general ledger we have been working with the Town to conduct a complete reconciliation of all special, capital, trust and agency accounts. As a result of this project there were many journal entries required that ultimately affected all funds. We utilized the best information available to us from all departments of the Town. The Town has reviewed and agreed with the proposed adjustments to close the FY2010 ledgers. A further refinement of the reconciliation process may uncover additional adjustments in FY2011.

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. Any further variances in the ledgers 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.

As indicated by Statement on Auditing Standards #112, *Communicating Internal Control Related Matters Identified in an Audit*, employees or management who lack the qualifications and training to fulfill their assigned functions represent a strong indication of a material weakness in internal controls. The lack of ability to properly reconcile general ledger accounts, reconcile to departmental maintained records and the use of excessive journal entries to attempt to correct variances is an indication that accounting staff does not possess the necessary competency to implement internal controls that would reduce to a relatively low level the chance that errors or irregularities could occur in the normal course of business and not be prevented or detected by the Town's internal control structure.

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

Current Status

There has been no change in this area, fiscal year 2010 ledgers contained many direct postings to fund balance. Management has informed us that with the new chart of accounts implemented in FY2011 that the posting of activity directly to fund balance will be eliminated.

Formalize Capital Asset Reporting

Prior Comment

The Town has previously relied on the assistance of the prior audit firm to maintain 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 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 2010. Management has informed us that has implemented new procedures in FY2011.

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 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 was not able to provide a complete and accurate listing of federal grants and related expenditure amounts for fiscal year ended June 30, 2010. Management has informed us that the new chart of accounts adopted for FY2011 contains the proper segregation to properly report federal awards.

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 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 recommended 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 2010. Management has informed us that a new system will be implemented in FY2011.

Student Activity Accounts

Prior 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.

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.

Current Status

During fiscal year 2010, no reconciliation procedures were put in place related to the Student Activity Accounts. Management informed us that new policies and procedures will be implemented in FY2011.

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 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 FY2010, the Town Accountant posted journal entries to zero out all general fund liability accounts without conducting a proper reconciliation of each account. This could potentially be an attribute of the Town's cash variance.

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 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 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. The June 30, 2009 bank statement was approximately \$208,000 higher than the general ledger account balances. This could be 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 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 recommend 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 2010, the Town Accountant set up a new fund to account for all construction deposit accounts and a journal entry using the bank statement was posted to establish beginning balances. Limited reconciliation procedures were performed with the applicable departments to determine the correct balances related to these accounts. Management has informed us that a final reconciliation will occur in FY2011.

Deposit and Investment Policy

Prior Comment

The Town has an investment policy that refers to GASB 3 as its guidance. GASB 3 has been amended by GASB 40 and the Town should review their investment policy and make any updates necessary to comply with the requirements of GASB 40. The current policy is a little vague and does not specifically address the issues of interest rate risk and credit rate risk as examples.

Recommendation

We recommend that the Treasurer adopt a deposit and investment policy that addresses key areas of the GASB Statement 40. Among other items, the policy should address collateralization of uninsured cash deposits and limits placed on the ability to invest in certain debt or equity issuers.

We also recommend that the Treasurer review the current policy on unsecured deposit limits and implement a plan to stay in compliance.

Current Status

As of June 30, 2010, the Town is in compliance with their investment policy. We continue to recommend that the policy be reviewed and updated at least every other fiscal year or sooner if industry changes occur that would warrant a change. This comment is considered resolved.

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 low interest loan in which the principal and 3% interest is due each year.

The detailed records of the CEDA office have not been reconciled to the Town Accountants detail. As of June 30, 2009 there was a variance of approximately \$114,000 between the CEDA office and Town Accountant. This variance increased to approximately \$230,000 as of June 30, 2010. 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 recommend that the CEDA office reconcile detailed balances within the CEDA office and then with the Town Accountant. Procedures should be implemented to reconcile at least on a quarterly basis.

Current Status

We are in the process of assisting the Town in auditing the balances maintained by the CEDA Office. However, no formal reconciliation procedures are in place between the CEDA Office and the Town Accountant's Office.

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.

Recommendation

We 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 2010.

Current Year Comments

Chapter 90 Reimbursement

Current Comment

The Town's general ledger reported a cash deficit of approximately \$528,000 in the Chapter 90 Highway Improvements Special Revenue Fund. Chapter 90 is administered on a reimbursement basis in which the Town must submit paid invoices to the Commonwealth for reimbursement. The Town does not have a system to submit requests for reimbursement timely, which has contributed to the year end deficit. A cash deficit in Chapter 90 affects the total free cash the Town is certified to receive for use on other Town projects or asset acquisitions.

Recommendation

We recommend the Town request reimbursement for Chapter 90 project expenditures in a timelier manner. Management has informed us that procedures are now in place to rectify this issue in FY2011.

Tailings Procedures

Current 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 recorded 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 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.

Police Detail Receivables

Current 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 City can minimize the possibility of creating a permanent deficit that ultimately would have to be funded by the general fund.

As of June 30, 2010, there is a variance of approximately \$63,000 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 various collections procedures to keep these payments current. A correcting entry has been provided to the Town Accountant's Office.

Recommendation

We recommended 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.

Government Accounting Standards Board (GASB) Statement #54

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.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. 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.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are 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 is required.

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

The definitions of the general fund, special revenue fund types, capital projects fund types, and permanent fund types 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.

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.

