

***TOWN OF WAREHAM, MASSACHUSETTS***

***REPORTS ON FEDERAL AWARD PROGRAMS***

***FISCAL YEAR ENDED JUNE 30, 2011***

**TOWN OF WAREHAM, MASSACHUSETTS**  
**REPORTS ON FEDERAL AWARD PROGRAMS**  
**FISCAL YEAR ENDED JUNE 30, 2011**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Honorable Board of Selectmen  
Town of Wareham, Massachusetts

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Wareham, Massachusetts, as of and for the year ended June 30, 2011, which collectively comprise the Town of Wareham, Massachusetts' basic financial statements and have issued our report thereon dated December 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Town of Wareham, Massachusetts' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Wareham, Massachusetts' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Wareham, Massachusetts' internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting 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 consider the deficiencies described as 2010-01 in the accompanying schedule of findings and questioned costs to be material weaknesses.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Wareham, Massachusetts' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Town of Wareham, Massachusetts in a separate letter dated December 15, 2011.

This report is intended solely for the information and use of management, Board of Selectmen, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Bowers & Sullivan LLC".

December 15, 2011



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## **REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Board of Selectmen  
Town of Wareham, Massachusetts

### **Compliance**

We have audited the compliance of the Town of Wareham, Massachusetts, with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Wareham's major federal programs for the fiscal year ended June 30, 2011. The Town of Wareham, Massachusetts' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Wareham's management. Our responsibility is to express an opinion on the Town of Wareham, Massachusetts' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about the Town of Wareham, Massachusetts' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Wareham, Massachusetts' compliance with those requirements.

In our opinion, the Town of Wareham, Massachusetts, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2011.

### **Internal Control Over Compliance**

Management of the Town of Wareham, Massachusetts is responsible for establishing and maintaining effective internal control over compliance with the requirements that of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Wareham, Massachusetts' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Wareham, Massachusetts' internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

*A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Wareham, Massachusetts, as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated December 15, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Town of Wareham, Massachusetts', basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, Board of Selectmen, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Bowers & Sullivan LLC".

December 15, 2011

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:		
<u>Passed through Massachusetts Department of Elementary and Secondary</u>		
<u>Education:</u>		
Non-Cash Assistance (Commodities):		
National School Lunch Program	10.555	44,396
Cash Assistance:		
School Breakfast Program	10.553	190,004
National School Lunch Program	10.555	538,954
Special Milk Program for Children	10.556	1,532
Fresh Fruit and Vegetable Program	10.582	22,930
		<u>797,816</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE		
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
<u>Direct Programs:</u>		
Community Development Block Grants-Entitlement Grants	14.218	880,299
U.S. DEPARTMENT OF CRIMINAL JUSTICE:		
<u>Direct Award:</u>		
Bulletproof Vest Partnership Program	16.607	21,939
<u>Passed through State Department of Fish,</u>		
<u>Wild Life and Environmental Law Enforcement:</u>		
Clean Vessel Act	15.616	21,918
<u>Passed through Executive Office of Public Safety:</u>		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	53,846
ARRA - Edward Byrne Memorial Justice Assistance Grant Program	16.803	133,246
		<u>230,949</u>
TOTAL U.S. DEPARTMENT OF CRIMINAL JUSTICE		
U.S. DEPARTMENT OF EDUCATION:		
<u>Passed through Massachusetts Department of Elementary and Secondary</u>		
<u>Education:</u>		
Title 1 Grants to Local Educational Agencies	84.010	849,209
Special Education Grants to States	84.027	411,757
Safe and Drug Free Schools and Communities State Grants	84.186	7,595
Twenty-First Century Community Learning Centers	84.287	208,410
Education Technology State Grant	84.318	40,695
Improving Teacher Quality State Grants	84.367	120,752
Statewide Data Systems	84.372	16,719
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	100,008
ARRA - Special Education Grants to States, Recovery act	84.391	556,378
ARRA - State Fiscal Stabilization Fund - Education		
State Grants, Recovery Act	84.394	376,900
ARRA - Race to the top	84.395	5,435
Education Jobs Grant	84.410	680,411
<u>Passed through State Department of Early Education and Care:</u>		
Special Education Preshool Grants	84.173	46,794
ARRA - Special Education Preschool Grants, Recovery Act	84.392	16,807
		<u>3,437,870</u>
TOTAL U.S. DEPARTMENT OF EDUCATION		
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
<u>Passed through State Department of Early Education and Care:</u>		
ARRA - Child Care and Development Block Grant	93.713	2,704
U.S. DEPARTMENT OF HOMELAND SECURITY:		
<u>Passed through the Massachusetts Emergency Management Agency</u>		
Port Security Grant	97.056	1,614
		<u>1,614</u>
TOTAL FEDERAL AWARD EXPENDITURES		
		<u>\$ 5,351,252</u>

**Note 1 - Definition of Reporting Entity**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Town of Wareham, Massachusetts. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies is included on the schedule.

**Note 2 - Significant Accounting Policies**

The accounting and reporting policies of the Town of Wareham, Massachusetts, are set forth below:

(a) Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards is presented on the cash basis of accounting. Accordingly, grant revenues are recognized when received and expenditures when paid.

(b) Cash Assistance - School Breakfast and Lunch Program - Program expenditures represent federal reimbursement for meals provided during the year.

(c) Non-Cash Assistance (Commodities) – School Lunch Program – Program expenditures represent the value of donated foods received during the fiscal year.

**Note 3 - Program Clusters**

In accordance with Subpart A §\_105 of OMB Circular No. A-133, *Audits of States, Local Governments and Non Profit Organizations*, certain programs have been clustered in determining major programs. The following represents the clustered programs:

<u>Name of Cluster/Program</u>	<u>CFDA Number</u>
<b>Child Nutrition Cluster</b>	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Milk Program for Children	10.556
Fresh Fruit and Vegetable Program	10.582
<b>Title I, Part A Cluster</b>	
Title I Grants to Local Educational Agencies	84.010
ARRA – Title I Grants to Local Educational Agencies, Recovery Act	84.389
<b>Special Education Cluster</b>	
Special Education Grants to States	84.027
Special Education Preschool Grants	84.173
ARRA – Special Education Grants to States, Recovery Act	84.391
ARRA – Special Education – Preschool Grants, Recovery Act	84.392

**A. Summary of Auditors' Results**

1. The auditors' report expresses an unqualified opinion on the financial statements of the Town of Wareham, Massachusetts.
2. A material weakness relating to the audit of the financial statements is reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the basic financial statements of the Town of Wareham, Massachusetts, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements that could have a direct and material effect on each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Town of Wareham, Massachusetts, expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the Town of Wareham, Massachusetts.
7. The programs tested as major grants include:

<u>Program Title</u>	<u>CFDA Number</u>
Community Development Block Grants-Entitlement Grants	14.218
ARRA – Edward Byrne Memorial Justice Assistance Grant	16.803
Special Education Grants to States	84.027
Special Education Preschool Grants	84.173
ARRA – Special Education Grants to States, Recovery Act	84.391
ARRA – Special Education – Preschool Grants, Recovery Act	84.392
ARRA - State Fiscal Stabilization Fund – Education State Grants, Recovery Act	84.394
Education Jobs Grant	84.410

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Town of Wareham, Massachusetts, was determined to be a high-risk auditee.

**B. Findings-Financial Statements Audit****2010-01: Material Weakness**

*Condition and Criteria:* The following deficiencies exist within the Town's system of internal control:

- 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, 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.
- 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.

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, policies 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.
- 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.
- 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.

*Cause:* Lack of procedures in place to obtain the objectives of a system of internal control as defined above.

*Effect:* The Town is unable to provide reasonable assurance that assets are properly safeguarded and transactions are executed in accordance with management's authorization and recorded timely and properly in the general and subsidiary ledgers.

*Auditors' Recommendation:* We recommend that the Town implement a system of internal control policies and procedures to insure that all of the above noted material weaknesses are corrected in a timely manner.

*Current Status:* The Town has been working to correct the material weaknesses as noted above. Please see the information above for the current status of each material weakness as of June 30, 2011.

**C. Findings and Questioned Costs-Major Federal Award Program Audit**

None

**D. Prior Year Findings and Questioned Costs**

**2010-02: Material Weakness**

*Condition and Criteria:* As described in the above mentioned financial statement material weakness section, the Town does not have sufficient internal controls in place to assure that all activity recorded within the general ledger is complete and accurate, as well as, the fact that no reconciliation procedures are in place related to all major activities of the Town.

*Cause:* The Town does not have procedures for reconciling grant activity recorded in the general ledger with records maintained by Town's departments and reported to granting agencies.

*Effect:* The Town is not able to produce a complete and accurate schedule of expenditures of federal award programs on its own.

*Auditors' Recommendation:* We recommend that Town implement procedures to reconcile all grant activity with the respective departments on a monthly basis and design procedures to account for all federal grant expenditures to allow for preparation of a complete and accurate schedule of expenditures of federal award programs.

*Current Status:* During fiscal year 2011, a new chart of accounts was implemented that segregates both Town and School federal grants. Also, during fiscal year 2011 the unsupported adjustments made to grant activity during fiscal year 2010 did not occur.