

***TOWN OF WAREHAM, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2009***



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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 for the year ended June 30, 2009 and issued our report thereon dated July 30, 2010. 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, 2009, 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. 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.

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

July 30, 2010

TOWN OF WAREHAM, MASSACHUSETTS

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# ***Material Weakness***

## **Overview**

The objective of a system of internal control is to safeguard the assets of the Town and provide assurance that transactions are executed in accordance with management's authorization and recorded properly in the Town's general ledger and subsidiary 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 below represent significant deficiencies 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 general purpose financial statements.

## **Reconciliation of Receivables**

### Comment

The Collector's role in the internal control system over accounts receivable is to collect unpaid bills, deposit the receipts in a timely manner and report the activity to the Town Accountant. The Collector's procedures must include maintaining detail records of the accounts receivable activity and balances. These records must be reconciled to the general ledger maintained by the Town Accountant.

The Town Accountant's role in the internal control system over accounts receivable is to record the activity in the general ledger as reported by the individual departments involved. For example, commitments and abatements of receivables are reported to the Town Accountant by the Assessor and collection and refunds are reported to the Town Accountant by the Collector. Like the Collector, the Town Accountant has the dual responsibility of assuring that receivable activity and balances reported on the general ledger agree to the detail records maintained by the Collector.

Based on our observations and discussions with management we noted that the Collector's detailed accounts receivable balances were not reconciled to the general ledger during the fiscal year. We also noted that journal entries were used to bring the general ledger balances in line with the Collectors detailed records as of June 30, 2009. This is not considered a reconciliation as there is no support behind the journal entry.

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.

### Recommendation

Based on observations and discussions with management it seems evident that the Town is lacking a clearly defined process requiring the regular reconciling of the receivable accounts. By reconciling the accounts in a timely fashion management will be able to isolate and resolve any variances between the Collector and Town Accountant in a comprehensive and thorough manner.

In order to achieve an optimal control environment that will aid in the elimination of the material weakness over receivables we recommend that the Town overhaul the existing internal control structure. All current policies, procedures and practices must be documented and evaluated. At the end of the process the Town must formally document, in writing, new internal control policies and procedures.

Furthermore, management of the Town will want to consider the following suggestions when implementing new policies and procedures regarding the internal control over receivables:

- Designate someone who is separate from the daily commitment, collection and ledger activities affecting accounts receivable to be charged with the execution of the reconciliation process;
- Adjustments that are deemed necessary as a result of reconciling the accounts should be approved by appropriate officials and formally documented, in hard copy format, in a centralized journal entry file;
- All receivable balances should be reconciled at a monthly interval, at minimum, and;
- On a semi-annual basis, at minimum, the Collector should perform an analysis of all outstanding receivables to determine the Town's ability to actually collect the outstanding balances. Any balances that are deemed to uncollectible should be presented to appropriate governing bodies for approval of account write-offs.

#### Management Response

At the beginning of calendar year 2010, the Town Accountants Office was given additional support staff to assist in the posting of commitments and abatements. The accounts receivable, although posted in a timely fashion will not be reconciled until June 30, 2010.

Procedures are being implemented so that in FY2011 receivable reconciliations are completed monthly.

#### **Reconciliation of Cash**

##### Comment

The Treasurer's and Town Accountant's Office is responsible for completing timely reconciliations of the activity and balances of cash. We believe this function is the most important element of the overall internal financial controls of the Town. The lack of a complete and timely reconciliation process is considered a material weakness.

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.

Discussions with management indicate that monthly reconciliations have not occurred during fiscal year 2009 and through the date of this letter. We noted that there is a process in place in which the Treasurer reconciles the cash book to bank and investment statements. However, reconciliations between the general ledger and cashbook have only occurred at year end for audit purposes.

### Recommendation

We recommend that management implement internal control procedures for completing monthly reconciliations between the general ledger and cash book and research and resolve all reconciling items in a timely manner.

### Management Response

FY2010 Cash reconciliation will only be completed at June 30, 2010, as the clean up of various accounts directly impacts the cash balances in several funds.

Procedures are being implemented so that in FY2011 cash reconciliations are completed monthly.

### **Betterments**

#### Comment

The Town does not have proper controls or reconciliation procedures in place to account for betterments. Betterments arise from two sources; the first comes from the Water Pollution Control Facility (WPCF) when the Town adds neighborhoods to the sewer system the residents are assessed their share of the cost to be paid back as a lump sum or within a twenty year period of time, the second source comes from the Community and Economic Development Authority (CEDA) office, they assist residents that cannot afford to upgrade or replace their septic systems obtain the funding for these upgrades. These residents pay monthly/yearly until the cost is paid off or they can pay off the balance when the property has been sold.

The activity of CEDA funded betterments is accounted for in the general fund while the activity related to the WPCF betterments is accounted for in the sewer enterprise fund. The lack of controls and reconciliation procedures in place, leads to a situation in which activity can be posted to either fund in error and it would not be detected in a timely manner. As a result, the receivables in each fund have large variances between the general ledger and the detail. Management was not able to provide us with a complete reconciliation between all activity and ending balances.

#### Recommendation

We recommend that management evaluate the current system of internal controls and procedures that track the activity of betterments. Based on that evaluation, changes to the current systems should be made that will allow for a complete monthly reconciliation process that accurately accounts for betterment activity. The policies and procedures documentation need be in writing.

#### Management Response

With the implementation of the new general ledger system in FY2011, the CEDA Title V Betterments will now be tracked through the CEDA Accounts versus the General Fund.

The Director of Assessing, Treasurer/Collector and Town Accountant are working in unison to verify that all betterments for the WPCF are included in the assessors VADAR program. Additionally, the WPCF has been separated effective FY2011 into Town Funds and Operating and Capital which will allow for better tracking and ease of reconciliation.

## **Reconciliation of Approved Budget from Town Meeting Votes to General Ledger**

### Comment

The Town was not able to provide a reconciliation of the fiscal year 2009 authorized budget between the Town Meeting votes, the tax recap, transfers and the general ledger. The lack of a budget reconciliation process is a breakdown which when looked at as part of the overall internal control structure of the Town is determined to be a material weakness.

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.

### Recommendation

We recommend that the Town implement procedures to account for all financial votes authorized at town meeting by preparing a reconciliation of the votes to both the tax recap and the general ledger. The reconciliation of the ledger budget is an ongoing procedure and must be part of the monthly closing process.

### Management Response

During FY2009, it was recognized that the total value of the Fall Town Meeting Budget did not correspond with the actual votes. A legal opinion was requested by the Acting Town Administrator. That opinion stated that as the Town voted per budgeted line although there was an issue with the overall total, the amounts were accurate as voted. A copy of that legal opinion was forwarded to the Towns' Independent Audit firm for verification and recording purposes.

For 2010, the Town will be providing a budget reconciliation from the general ledger to the Town Meeting votes and the Tax Recapitulation Sheet.

## **General Ledger and Subsidiary Ledgers Integrity**

### Comment

The Town's financial and management software used for financial purposes was not set up to properly account for all of the financial activity. The financial activity is segregated by funds and within each fund is a series of accounts to record all assets, liabilities, fund balance, revenues, expenditures, transfers and encumbrances. Each fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The fund structure and the accounts used must be in sufficient detail for the information provided to be useful to management.

In our initial discussions with the new Town Accountant regarding the integrity of the ledger she informed us that she found a significant number of deficiencies on how the ledgers were setup. Many of the funds integrity were compromised due to the fact that many accounts were not properly linked to the fund they related to and therefore funds were out of balance. To further complicate the matter, the reports generated would not report all activity of a fund or report activity from another fund which made many of the reports unreliable.

In some funds the account detail was not sufficient to properly segregate the activity that would allow management the ability to analyze the activity. One example is the Health Insurance Trust Internal Service Fund

that commingled different types of revenues with the end result being errors in previous financial statements and significant management decisions being made due to inaccurate reporting.

The new Town Accountant was required to unravel the cross posting between funds through a series of account coding changes and journal entries to fix the ledgers before any meaningful analysis could begin. This was an extremely time consuming process that should not have been necessary. These corrections had to be made to the ledgers for FY2009 in order to eliminate the same errors in FY2010.

#### Recommendation

We recommend the Town develop a fund and account structure that is in compliance with the Uniform Massachusetts Accounting System (UMAS). The funds and accounts should be in sufficient detail to provide management with accurate and timely information. The funds and accounts must also be properly linked within the accounting software as to maintain the integrity of the information.

We are aware of the fact that the Town is working on this recommendation late in FY2010 in order to implement a new ledger for FY2011.

#### Management Response

The Town has implemented a new chart of accounts in FY2011 which has addressed many of the issues noted above.

### **Health Insurance Trust Internal Service Fund**

#### Comment

The Town established a Self-Insured Health Insurance Trust Internal Service Fund in FY2005 to account for all of the activity of health and dental insurance activities. Over the first five years of operations, the Town did not have an adequate system of internal control over the financial accounting for this fund. Therefore the internal and external reporting of the activity did not properly reflect the activity. We consider this deficiency a material weakness in internal control.

This inaccurate reporting caused significant turmoil within the Town and could have led to some financial decisions that would have had serious financial implications. The Town hired our firm to complete a detailed analysis of the activity of the fund from inception and our detailed findings are included in that report. In summary, our major findings were that the same activity was not posted consistently from month-to-month; the account structure was inadequate; employer transfers from grants were not made each year; management lacked an understanding on how the fund operated; and management did not reconcile the activity.

#### Recommendation

We recommend that management develop and document a system of internal control over accounting, reconciliation and reporting for the trust's activity. This will require a change to the account structure that will allow for reporting all revenues and expenses in their own account. It will require monthly reconciliation of all activities. It will require a monthly and annual reporting of all activity and a breakdown between the employee and employer share in compliance with MGL Chapter 32B. These changes may require reassignment of responsibilities between staff and departments.

### Management Response

Upon the completion of the Health Insurance Trust Audit, a comprehensive reconciliation process was begun that segregates the various revenues into separate accounts. The reconciliation process has been completed quarterly for FY2010. The Health Insurance Trust Reconciliation process will be managed by the Assistant Town Accountant (when hired) and approved by the Town Accountant for processing.

### **Journal Entry Supporting Documentation**

#### Comment

In the normal course of accounting for the activities of the Town the Town Accountant must make journal entries for a variety of reasons. Our review of the general journal entries revealed that many entries lack proper approval by a responsible employee. We also noted that the explanations accompanying the entries were inadequate in many instances. All journal entries should be accompanied by full explanation and by reference to adequate supporting data. Most of the entries that lacked the full explanation and supporting documentation related to the entries made by the prior Town Accountant.

#### Recommendation

We recommend the adoption of a policy whereby all journal entries will be approved by the Town Accountant or other designated member of management. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals. Each journal entry must contain a full explanation and either the supporting documentation is attached or a reference on how to locate the documentation must be included.

### Management Response

During FY2010, all journal entries submitted to the Town Accountants Office are required to have detailed back up and documentation for review. The entries are requested by the Departments, entered by the Accounting Department Staff and approved by the Town Accountant prior to posting.

## General Ledger Account Balances

### Comment

As part of our audit we compiled a listing of all special revenue account balances as reported in the general ledger by Department and forwarded this list to each respective Department Head for an independent verification of the balance. A similar process is a requirement that management should complete as part of its monthly closing process throughout the year. The results of our inquiry uncovered the following variances in reported balances:

Department	Account Title	Ledger Balance	Department Balance
CEDA	Title V Grant	(7,772)	None Reported
CEDA	Title V Admin	131,982	None Reported
CEDA	Program Income	52,891	329,836
Police	E911	(40,478)	(30,413)
COA	Formula grant	2,902	(634)
COA	Caregiver	2,068	-
COA	Incentive Grant	364	-
Harbormaster	Onset Pier	1,218	None Reported
Harbormaster	Clean Water Grant	3,409	None Reported
Harbormaster	Coastal Access	1,043	None Reported
School	MathScience Partnership	450	(1,170)
School	Individuals with Disabilities	(9,939)	(11,244)
School	Early Childhood	(508)	(693)
School	Title 1	(124,381)	(124,875)
School	Mass. 21st Century Learning	(53,983)	-
School	21st Century Target	955	-
School	21st Century FG	1,193	1,553
School	CSL Partnership	459	1,296
School	Tech Enhancement	837	-
School	Project Wrap	25,248	(2,589)
School	K Enhanced Program	(20,923)	(22,219)
School	GED	4,789	-
School	Collab. Success plan	(1,089)	208
School	Community Support Grant	(54,178)	(26,406)
School	Local Planning	5,649	5,581
School	Safe and Supportive learning	(1,689)	(1,929)
BOH	Smoke Free Campaign	(683)	12,832

There are many error types that could contribute to the overall variance of each account. However, it is clear that there are no reconciliation procedures being completed for these accounts by the various Departments and the Town Accountant's Office. All deficits will reduce the Town's free cash calculation as well as grant reporting may be inaccurate. Many of the accounts listed above are in deficit positions and management should determine if any deficits are permanent or temporary due to the cash flow of grants at year end.

We are also aware that management has not completed a historical reconciliation of the Water Pollution Control Facilities capital activity over the last several years along with the activities of the Community Preservation Fund. Management has indicated that they are uncertain as to whether the balances and activity of these accounts are substantially correct. Management had similar concerns related to the Health Insurance Trust which once

analyzed required significant adjustments. We have similar concerns related to the accounting and balances of the Water Pollution Control Facility and the Community Preservation Fund.

#### Recommendation

We recommend that the Town Accountant's Office work with Department Heads to reconcile all general ledger accounts related to the respective Departments and that these reconciliations take place on monthly basis going forward. Any permanent deficits must be identified and an action plan developed to eliminate the deficit.

We recommend that the Town complete a historical analysis of both Water Pollution Control Facilities capital activity and the activities of the Community Preservation Fund in order to prove the accuracy of the accounting. Until this information is available for us to audit, a scope limitation qualification will remain on our audit opinion.

#### Management Response

At the beginning of calendar year 2010, (*after the HIT Audit*), departments began receiving budget control, grant, revolving fund and article reports for review.

Many issues were found which included multiple fund balance accounts for the same funds such as the CEDA Title V Grant, the expenditures were being posted into one fund balance and the revenues were being posted in another fund balance. As one fund was unraveled, this scenario became redundant and therefore systematic. Many accounts have been combined and reconciled particularly CEDA and BOH.

A joint analysis by the Town Accountant and the Treasurer of the Community Preservation Committee has begun working to reconstruct the accounts with an analysis completed for the FY10 audit process.

## ***Other Matters***

## **Recording Activity Directly To Fund Balance**

### 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.

### Recommendation

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

### Management Response

During FY2010, the Town Accountant has strived to ensure that no entries have been posted to fund balance. Departments are being informed and trained on a regular basis that the only accounts they post into are expenditure and revenue accounts.

## **Formalize Capital Asset Reporting**

### 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.

### Management Response

The Town Accountant is working to implement procedures to track capital assets in accordance with the Independent Auditors Report. The new chart of accounts will improve the reporting practices for the Town.

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

### 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 year ended June 30, 2009.

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, 2009, 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.

### Management Response

The Town Accountant upon hire implemented a grant account set-up procedure. As of FY2010, no grants have been set up without proper documentation and a grants log will be prepared for the FY2010 audit.

## **Automation of Compensated Absences**

### 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.

Management Response

The Treasurer/Collector in conjunction with the Town Accountant has begun the process to automate tracking of compensated absences. The Treasurer/Collector has worked with Harper's Payroll service to implement this process during FY2011.

**Student Activity Accounts**

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.

Management Response

The Director of Business and Finance for the School Department has scheduled an audit of the Student Activity Accounts that will begin during FY2011. The Treasurer/Collector and Director of Business and Finance will work together to reconcile these accounts.

**Withholding Accounts**

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.

### Management Response

The Town is working to implement procedures that would allow for the withholding accounts to be reconciled for the FY2010 audit and on a quarterly basis starting in FY2011.

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

### 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.

### Management Response

Under the direction of the Town Administrator, all departments have been requested to create a Policy and Procedure Manual for their respective departments and provide a draft copy to the Town Administrator for review and approval.

## **Develop Written Disaster Recovery Procedures**

### 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.

#### Management Response

On 7/24/2010, the Town Accountant and IT Director met with ADVIZEX a state certified vendor to design a Comprehensive Emergency Plan which includes off site data storage.

#### **Construction Deposits**

##### 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 bank statement is 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.

##### Management Response

Upon being hired by the Town, it was brought to the Town Accountants attention that a comprehensive audit was conducted in 2007 on the Construction Deposits (53G). At that time, it was recommended that each account be segregated and tracked separately, that process was never completed. To rectify the situation, during FY2010, the Town Accountant began the reconciliation process for the construction deposit (53G) accounts. Upon review, many accounts were updated and closed on or before June 30, 2010 and all accounts have been segregated.

The Town Accountants review process is on-going and is scheduled to be completed during the first quarter of FY2011. Additionally, at the beginning of FY2011, the Town hired a new Town Planner who is reviewing all files to ensure that projects are completed and will present his findings to the Town Administrator, Town Accountant, Treasurer/Collector and Planning Board.

## **Deposit and Investment Policy**

### 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.

The current policy states that no more than 10% of the Town's cash can be held as unsecured and uncollateralized deposits. At June 30, 2009, the Town currently has 18% of its deposits being unsecured and uncollateralized.

### 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.

### Management Response

As of October 2009, all Town funds were fully collateralized or insured by the Federal Deposit Insurance Corporation. The Town is cognizant of the reduction of interest income that will be substantial due to this collateralization policy as set forth by GASB 40.

The Treasurer/Collector is working with the Town Administrator to update the Towns' investment policy.

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

### 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 Account. 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.

## Management Response

During FY2010, the CEDA Grant and Loan Programs were thoroughly reviewed with the CEDA Department. Reconciliations have been completed and will continue on a monthly basis.

## **Fraud Risk Assessment**

### 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.

## Management Response

Internal Control Procedures have begun effective FY2011, the first component was to eliminate the ability of departments to input vendors and/or change vendor addresses. This procedure is now being completed in the Town Accountant's Office. Additionally, all invoices are reviewed by the accounting department staff for accuracy and again by the Town Accountant.

The Town's insurance company MIIA provides Fraud Risk Assessment Training and the Town has scheduled a training seminar for FY2011.

## **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.

#### Management Response

At this time, GASB Statement #54 will have an impact on financial statement reporting only. The Town will work with our independent auditors to assure compliance with this GASB.