

TOWN OF MASHPEE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2011



Certified Public Accountants

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To the Honorable Board of Selectmen
Town of Mashpee, Massachusetts

In planning and performing our audit of the financial statements of the Town of Mashpee, Massachusetts (Town) as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated January 19, 2012, on the financial statements of the Town.

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

This communication is intended solely for the information and use of management, the Audit Committee, the Board of Selectmen and others within the organization and should not be used by anyone other than these specified parties.

Sullivan, Rogers & Company, LLC

January 19, 2012

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Comments and Recommendations

Kids Klub Enterprise Fund

Comment

During fiscal year 2011, the Kids Klub did not maintain formal record keeping of enrollment and participation in their various programs. As a result, reconciliations between the number of program participants to program revenues were not performed. Such reconciliations would provide assurance that the proper amount of revenues are being collected and recorded for each program. In addition, historical enrollment and participant data would assist the budgeting process and estimating future revenues.

This comment was also reported in the fiscal year 2010 Management Letter.

Recommendation

We recommend the Town maintain formal record keeping of enrollment and participation in the various Kids Klub programs. Once this process is established, we recommend the Kids Klub perform monthly reconciliations between the number of program participants to program revenues.

Management's Response

The Recreation department has purchased new software that is specifically designed for use by child care centers. As of July 1, 2011, all child care records, enrollment and payments will be tracked through this system which now allows reports to be generated and reconciliations to be done each month. With the ability to track and identify outstanding receivables, the department is also utilizing the Town's Deputy Collector service in an attempt to collect overdue payments which they have been unsuccessful in collecting themselves.

Risk Assessment and Monitoring

Comment

When internal controls are *initially* implemented, they are usually designed to adequately safeguard assets. However, over time, these controls can become ineffective due to changes in technology, operations, etc. In addition, changes in personnel and structure, as well as the addition of new programs and services, can add risks that previously did not exist. As a result, all municipalities must periodically perform a risk assessment to anticipate, identify, analyze and manage the risk of asset misappropriation. Risk assessment (which includes fraud risk assessment), is one element of internal control.

The risk assessment should be performed by management-level employees who have extensive knowledge of the Town's operations. Ordinarily, the management-level employees would conduct interviews or lead group discussions with personnel who have knowledge of the Town's operations, its environment, and its processes. The risk assessment process should consider the Town's vulnerability to misappropriation of assets. It should also address operations that involve heightened levels of risk. When conducting the assessment, the following questions should be considered:

- What assets are susceptible to misappropriation?
- What departments receive cash receipts?
- What departments have movable inventory?
- What operations are the most complex?
- How could assets be stolen?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could potential misappropriation of assets be concealed?
- What prior internal control issues could still continue to be problematic?

Once the areas vulnerable to risks have been identified, a review of the Town's systems, procedures, and existing controls related to these areas should be conducted. The Town should consider what additional controls (if any) need to be implemented to reduce risk.

After risk has been assessed, periodic monitoring of the identified risk areas must be performed in order to evaluate the controls that have been implemented to mitigate the risks. Since control-related policies and procedures tend to deteriorate over time, the monitoring process ensures that controls are fully operational and effective.

Recommendation

In July 2011, the Town adopted an Anti-Fraud Policy as a component of its risk assessment and monitoring program. In addition to the implementation of the Anti-Fraud Policy, we recommend that management develop and implement a monitoring program to periodically evaluate the operational effectiveness of internal controls. The monitoring process should be documented in order to facilitate the evaluation of controls and to identify improvements that need to be made.

Management's Response

The Town adopted an Anti-Fraud Policy in July 2011. In addition, the Town's Financial Team will meet on a quarterly basis to review and assess any potential fraud risk for immediate action. A report of our findings will be filed with the Board of Selectmen.