

TOWN OF MASHPEE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2012



Certified Public Accountants

SULLIVAN, ROGERS & COMPANY, LLC

Corporate Place I, Suite 204 • 99 South Bedford Street

Burlington, Massachusetts 01803

P • 781-229-5600 F • 781-229-5610 www.sullivan-rogers.com

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, 2012, 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. We also want to make you aware of a recently issued accounting standard that will significantly impact your financial statements in future years. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated January 15, 2013, 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 15, 2013

TOWN OF MASHPEE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2012

TABLE OF CONTENTS

	Page
Comments and Recommendations.....	1
Library.....	1
Abandoned Property (Tailings).....	4
Service Organization Controls.....	5
Escrow Accounts.....	6
Risk Assessment and Monitoring.....	7
Pension Accounting and Financial Reporting.....	8

Comments and Recommendations

Library

Comment

We reviewed the systems of internal control related to the Library's cash receipts process and identified the following deficiencies:

1. Cash receipts are not properly safeguarded prior to being turned over to the Treasurer/Collector's office. We identified the following deficiencies:
 - a. Cash receipts are placed in unlocked drawers during the day and there are times during the day in which the drawers are not monitored by an employee
 - b. The Library collects cash receipts in various locations throughout the Library. At the end of the day, most of the Library's cash receipts are compiled and placed in locked boxes or a safe. The locked boxes and safe are maintained in a locked room. However, we identified the following:
 - i. The lone exception of the process outlined above relates to donations collected in the Library's "Children's Room". The donations are kept in the "Children's Room" in a locked box that could easily be stolen and compromised.
 - ii. All library employees have access codes allowing them to enter the locked room where the locked boxes and safe are located. The locked boxes and safe (which is lightweight) could easily be stolen and compromised.
2. Cash receipts for fines are recorded in an automated software program (CLAMS) upon collection. Daily cash receipt reports can be generated from CLAMS and reconciled to daily cash counts. However, the Library does not perform this daily reconciliation procedure, which increases the risk of errors and/or irregularities occurring and going undetected.
3. Cash receipts for printing/copying fees are recorded via an automated swipe card machine upon collection. Daily cash receipt reports can be generated from the machine and reconciled to daily cash counts. However, the Library does not perform this daily reconciliation procedure, which increases the risk of errors and/or irregularities occurring and going undetected.
4. All Library employees with access to CLAMS have the ability to waive fines. Furthermore, there are no policies and procedures in place for periodic supervisory reviews of fines waived. The current process increases the risk of unauthorized transactions occurring and going undetected.

Recommendation

We recommend the Library implement policies and procedures to:

1. Improve the safeguarding of cash receipts. For example, the following procedures could be implemented:
 - a. Place cash drawers in a secure location during the day
 - b. Include "Children's Room" cash receipts as part of the end-of-day/overnight security procedures
 - c. Limit access to the room where cash receipts are maintained overnight
 - d. Replace the existing lightweight safe with a heavier safe that is less portable
2. Perform daily cash receipt reconciliations for fines collected by reconciling CLAMS reports to cash counts. The reconciliations must be performed by someone independent of the cash collection process. In addition, the reconciliations must be formally documented, signed off and filed to create an adequate audit trail.
3. Perform daily cash receipt reconciliations for printing/copying fees collected by reconciling swipe card machine reports to cash counts. The reconciliations must be performed by someone independent of the cash collection process. In addition, the reconciliations must be formally documented, signed off and filed to create an adequate audit trail.
4. Limit access and authority to waive fines in the CLAMS system. In addition, periodic (i.e. weekly, monthly, etc.) supervisory reviews of fines waived must be performed to help prevent unauthorized and/or inappropriate waiving of fines.

Management's Response

1. Improve the safeguarding of cash receipts
 - a. The cash drawers are placed in filing cabinets drawers located at the public service desks during the library's operating hours. These drawers are unlocked during the day to allow staff to make change and collect fines from patrons. Staff has been instructed that the file cabinet drawers must be secured (locked) during the day if the public service desk is left unattended or if in the course of performing their duties the desk will not be in their line of sight.
 - b. The cash that is collected in the Children's Room donation box will be removed from the box, counted, and secured on a daily basis.
 - c. The safe and cash drawers are maintained in the library's primary storage closet overnight. The closet is secured with a lock which operates with an electronic keypad, but can also be accessed by a traditional key. The Library Director is working with the Director of the DPW and staff to re-program the electronic access pad to limit electronic access to the room by staff overnight.

We are also seeking to limit staff access to the room via traditional key access. However, all of the library storage closets are unlocked using the same master keys. The locks are not unique. It is not feasible for staff not to have keys to the other library closets, which house library materials. If no other option is viable, the Library Director will make a request to the DPW to change the lock on the library's primary storage closet so that it is unique, and a limited number of traditional keys will be distributed to the Library Director and Office Manager.

d. The Library has purchased a new, heavier safe which has a top, drop-in-slot for depositing funds. The DPW has agreed to secure the safe to a wall or shelf in the primary storage closet.

2. Perform daily cash receipt reconciliations for fines collected by the reconciling the CLAMS reports to the cash counts

Library Staff who does not generally work at the public service desks (Library Director, Office Manager) will run a daily report using CLAMS Millennium system to provide a baseline figure for the amount of funds collected each day in the building. Please note that the report provides a total figure for the amount of funds collected using the system throughout the entire building. It does not provide an accounting of the funds for each individual work station and corresponding cash drawer.

In addition, Library Staff who do work at the public service desks will be responsible for counting funds each day, tallying them using an adding machine, and signing off on the receipt for funds collected. The funds will then be double counted and totals entered onto an Excel spreadsheet for deposit.

3. Perform daily cash receipt reconciliations for printing/copying fees collected by reconciling swipe card machine reports to cash counts

Library Staff who do not generally work at the upstairs public service desk (Director, Office Manager) will run a daily report using the Pharos system to provide a baseline figure for the amount of funds collected each day via the swipe card machine.

In addition, Library Staff who do work at the upstairs public service desk will be responsible for counting funds each day, tallying them using an adding machine, and signing off on the receipt for funds collected. The funds will then be double counted and totals entered onto an Excel spreadsheet for deposit.

4. Limit access and authority to waive fines in the CLAMS system

At our request, the CLAMS office has changed the permission structure of the Millennium system and eliminated the ability for all staff to waive fines in the CLAMS system. Authorization to waive fines is now limited to the Library Director, Office Manager, and Youth Services Librarian.

Abandoned Property (Tailings)

Comment

As of June 30, 2012, there was approximately \$43,000 of outstanding checks in a Town bank account that were greater than two (2) years old. Most likely, a majority of these checks are “abandoned property” as defined by Massachusetts General Laws (MGL) Chapter 200A, which also provides detailed procedures that must be followed related to abandoned property.

We did not identify any documented evidence that the Treasurer/Collector’s department is adhering to all of the abandoned property policies and procedures as defined in MGL Chapter 200A.

Recommendation

We recommend the Town implement policies and procedures to identify and resolve abandoned property in accordance with MGL Chapter 200A on a periodic (monthly, quarterly, semi-annually, annually, etc.) basis. All abandoned property procedures must be documented to provide evidence of compliance with the law.

Management’s Response

The Town has notified owners of abandoned property and the Town is planning on adopting Chapter 200A Section 9A of the Massachusetts General Law at the next Town Meeting.

Service Organization Controls

Comment

The Town, like many local governments in Massachusetts, engages third-party service providers (service organizations) to process certain financial transactions (such as tax billing and ambulance activities). In such instances, the related financial transactions are affected by the Town's internal controls and the controls employed by the service organization. Therefore, as part of its monitoring efforts to ensure that internal controls over financial reporting are effective and functioning as intended, Town management must evaluate whether service organization controls are suitably designed and effective.

Furthermore, service organizations often have information regarding employees and customers that must be protected (e.g., social security numbers). Such controls generally relate to the security, availability, processing integrity, confidentiality or privacy of information. Therefore, as part of its monitoring efforts to ensure the privacy and protection of its employees and customers' information, management must evaluate whether service organization controls are suitably designed and effective.

The most effective and efficient way for the Town to accomplish its monitoring efforts is to obtain the appropriate *Service Organization Control (SOC)* reports from its third-party service providers.

There are two types of SOC reports that service auditors provide to service organizations for the benefit of their users, which are as follows:

- SOC 1 (previously SAS 70) reports – provide an opinion on controls at a service organization that are likely to be relevant to a user entity's internal control over financial reporting
- SOC 2 reports – provide an opinion on controls at a service organization that are related to the American Institute of Certified Public Accountants (AICPA) Trust Service Principles, which are (1) security; (2) availability; (3) processing integrity; (4) confidentiality; and (5) privacy.

Service organizations should be engaging a service auditor to provide the appropriate SOC report(s) and should make the resulting report available to their customers (e.g., the Town).

Recommendation

We recommend the Town identify each service organization utilized and request the applicable SOC report (annually).

Because all service organizations are an extension of the Town's internal control, we recommend all service organization contracts include a requirement to obtain the appropriate SOC report (annually).

Management's Response

The Accounting Department will be working with the appropriate departments to identify all third-party service providers utilized by the Town and ensure a copy of the appropriate SOC report for each provider is received annually. We will also start including the requirement that this report is received annually, in all contracts made with any third-party provider, in the future.

Escrow Accounts

Comment

The Town maintains various escrow bank accounts (i.e., performance bonds, etc.) totaling approximately \$438,000 as of June 30, 2012. We identified the following deficiencies related to escrow accounts:

- There are no formal policies and procedures in place to periodically review the status of the escrow accounts to determine if conditions have been met to return deposits to their rightful owner. For example, we identified an escrow deposit from a contractor that dates back to 1987 for which it was unknown as to whether the money should be returned to the contractor or kept by the Town.
- There are no formal policies and procedures in place to reconcile escrow balances between the bank accounts, the general ledger and the detailed records maintained by the various departments from which the escrow accounts were initiated. This increases the risk of irregularities and/or errors occurring and going undetected.

Recommendation

We recommend the Town implement policies and procedures to:

- Periodically (quarterly at a minimum) review the status of escrow accounts to determine if conditions have been met to return deposits to their rightful owner
- Reconcile (monthly) escrow balances between the bank accounts, the general ledger and the detailed records maintained by the various departments from which the escrow accounts were initiated

Management's Response

The Treasurer's office has taken the recommendation under advisement and will be working with other departments to create policy and reconciliations with the general ledger.

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

Management will be devising a monitoring program to review and evaluate the Town's effectiveness of their internal controls. The reviews will be done periodically and any necessary improvements that are identified will be implemented. Reviews will be recorded in written document form and kept on file in the accounting office.

Pension Accounting and Financial Reporting

Comment

In June of 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, which revises and establishes new financial reporting requirements for governments that provide pension benefits to its employees and retirees.

The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the Town will be required to recognize its long-term obligation for pension benefits as a liability in its government-wide financial statements.

The implementation of this Statement will also:

- More comprehensively measure the annual costs of pension benefits
- Place conditions on the use of the discount rate used to measure the projected benefit payments to their actuarial present value
- Require the use of the “entry age” actuarial cost allocation method, with each period’s service cost determined by a level percentage of pay (referred to as attribution method)
- Expand pension related note disclosures
- Expand pension related required supplementary information disclosures

The requirements of this Statement will improve the decision-usefulness of pension information in governmental financial statements and will enhance the comparability of pension information between governmental entities.

Given the significance of the pension fund liability, the financial reporting impact under the new standard will significantly affect the Town’s financial statements.

It should be noted that the implementation of GASB Statement No. 68 is strictly a financial reporting standard and does not constitute a state or federal mandate regarding the funding of the net pension obligation.

The Town’s required implementation date of GASB Statement No. 68 is fiscal year 2015.

Recommendation

We recommend management familiarize itself with GASB Statement No. 68 to prepare for its implementation.

Management’s Response

The Town is partnering with other communities and Barnstable County, to contract with a firm to provide an updated actuarial. The Accounting Department will familiarize themselves with the reporting standard for the new GASB Statement No. 68, and will record the information as required, using the information provided in the actuarial.