

TOWN OF MASHPEE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2009



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, 2009, 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.

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 a 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 a 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.

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

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. Our comments and recommendations concerning those matters are summarized in the memorandum that accompanies this letter. This letter does not affect our report dated April 14, 2010, 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.

A handwritten signature in black ink that reads "Sullivan, Rogers & Company, LLC".

April 14, 2010

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Comments and Recommendations

Kids Klub Enterprise Fund

Comment

We identified the following deficiencies related to the Kids Klub enterprise fund:

1. There are no policies and procedures in place to bill user fees and maintain an accounts receivable ledger with an efficient, automated system (i.e., Excel, Quickbooks, MUNIS, etc.). Currently, user fees are collected from program participants with no formal billing process. This creates the risk the Kids Klub may not be paid the proper amounts owed for services provided.

In addition, without a formal billing process, amounts owed for Kids Klub fees cannot be forwarded to the Town Accountant's office and recorded on the general ledger. As a result, monthly reconciliations of outstanding receivables cannot be performed between the Kids Klub and the Town Accountant's office. Proper internal controls require all receivables to be accounted for, and recorded on, the general ledger.

2. The Kids Klub uses a cash register to record cash receipts. Documented evidence is not maintained of the reconciliation between the daily cash register tape and daily cash receipts. Documented evidence of these reconciliations provides assurance over the completeness and accuracy of cash receipts.
3. The Kids Klub collects prepaid tuition fees for future services. All prepaid tuition fees are recorded as current year revenues in the general ledger. However, since some prepaid fees relate to services to be provided in a subsequent fiscal year, the current practice overstates revenues and fund balance, and understates liabilities (i.e., unearned revenue).

Furthermore, the current practice inhibits the Town's ability to effectively monitor the Kids Klub enterprise fund's activity and fund balance. The Kids Klub enterprise fund user fees are designed to cover program costs. Therefore, the Town must monitor the activity and balances in this fund to evaluate whether it is operating as planned. By recording prepaid tuition fees as revenues in the fiscal year received, the general ledger cannot be relied upon to effectively perform this financial monitoring procedure.

4. During fiscal year 2009, the Kids Klub enterprise fund was not credited with investment income in the Town's general ledger. MGL Chapter 44, Section 53F1/2, requires enterprise funds to retain investment income on its deposits.

Recommendation

We recommend the Town:

1. Implement policies and procedures to bill user fees and maintain an accounts receivable ledger with an efficient, automated system. Once these policies and procedures are implemented, we recommend all bills be forwarded to the Town Accountant (monthly) so an accounts receivable can be recorded and maintained on the general ledger. Once this process is established, we recommend the Town Accountant and Kids Klub perform monthly accounts receivable reconciliations.
2. Perform and document the reconciliation between the Kids Klub daily cash register tape and daily cash receipts. The documented evidence of the reconciliations must include (at a minimum) a signature and date from both the preparer and reviewer of the reconciliations.

3. Record prepaid tuition fees related to a subsequent fiscal year as liabilities (i.e., unearned revenues) in the fiscal year received. In the subsequent fiscal year, the liability balance(s) from the prior fiscal year should be recorded as revenue through journal entries.
4. Allocate investment income to the Kids Klub enterprise fund monthly. The allocation should be based on the average daily balance of the fund's operating cash and the interest rate being earned in the Town's depository account.

Management's Response

The Recreation Department has created written policies and procedures regarding the financial related activity of the Kids Klub Enterprise Fund. They have been working with their software engineer for their Rec Track system to create reports that will provide the information necessary for proper reconciliation to the general ledger in Munis. The Accountant has set up a receivable on the general ledger and will receive copies of the billing for each month in order to maintain it. There will be monthly reconciliations performed to identify any variances between the general ledger and Rec Track program.

The Recreation Department is now performing daily reconciliations between the cash register tapes and receipts and will be reviewed and initialed by an individual other than the preparer.

At the end of the fiscal year, tuitions paid for care to be performed in the following fiscal year will be identified and brought to the attention of the Accountant, who will record these tuitions as liabilities for the fiscal year ending. At the start of the new fiscal year, the Accountant will perform a journal entry to transfer this amount from the liability account, to revenue.

The Treasurer will allocate monthly investment income associated with the enterprise fund, accordingly.

Encumbrances

Comment

During our testing of encumbrances, we identified several School department encumbrances (totaling approximately \$2,000) related to goods that were ordered in July 2009 (i.e., fiscal year 2010).

In order to encumber funds from the annual budget for a particular fiscal year, a commitment must be made in the form of a binding contractual obligation to purchase goods or services from that fiscal year's budget appropriation. Therefore, funds should not have been encumbered for the goods that were ordered in fiscal year 2010 since a binding obligation to purchase the goods did not exist as of June 30, 2009.

Recommendation

We recommend the Town implement policies and procedures to only encumber remaining appropriations at fiscal year-end for commitments in the form of a binding contractual obligation to purchase goods or services from that fiscal year's budget appropriation.

Management's Response

The School Business Office has been made aware of the findings and will ensure that adequate back-up information will accompany all encumbrances to prove all goods were ordered prior to 6/30. The Accounting Department will also scrutinize all purchase orders and encumbrances to verify adequate proof has been provided.

Transfer Station Cash Receipts

Comment

The transfer station maintains pre-numbered receipt slips to account for cash receipts. The receipt slips are included with deposit turnovers to the Treasurer. However, the transfer station does not have procedures in place to reconcile (or to document the reconciliation) the total receipt slips to the total amount of the related turnovers. Performance (and documentation) of these reconciliations provides assurance over the completeness and accuracy of cash receipts.

Recommendation

We recommend the transfer station perform and document the reconciliation of the total receipt slips to the total amount of the related turnover. The documented evidence of the reconciliations must include (at a minimum) a signature and date from both the preparer and reviewer of the reconciliations.

Management's Response

There will be a formal reconciliation performed between the actual receipt slips turned over from the transfer station attendants and the deposit made to the Treasurer. Receipt numbers will be recorded on the deposit turnover sheet. A signature/verification section has been added to the turnover sheet and the individual responsible for creating the deposit will sign it, along with a separate individual to verify the deposit information is correct. The Department of Public Works will keep their copy of the deposit along with the actual receipts for that deposit, in their files for auditing purposes.

Betterments

Comment

The Assessor's office maintains detailed accounts receivable ledgers for unapportioned betterment receivables in a software program (PK) that is not integrated with the Town's central accounting information system (MUNIS). The Town's integrated software has a module for maintaining betterments.

Recommendation

We recommend the Town investigate utilizing the betterment receivable module in MUNIS to maintain detailed accounts receivable ledgers for all betterment receivables (including unapportioned betterments).

Management's Response

We have taken this recommendation on board and will thoroughly research the matter. The MUNIS program will be evaluated for its efficacy in handling all the types of betterments that the Mashpee Assessing Department administers including septic, road, sewer and water.

Police Forfeiture Accounts

Comment

We identified two Police forfeiture bank accounts (using the Town's tax identification number) that are not accounted for in the Town's cashbook or general ledger. Since the accounts are maintained under the Town's tax identification number and they are related to Town activities, the receipts and disbursements in the bank accounts should be subject to the Town's system of internal controls and recorded in the Town's cashbook and general ledger.

In addition, one of the accounts is federal in nature. Therefore, the activity in the federal forfeiture account must be reported in the "Schedule of Expenditures of Federal Awards" in the *Reports on Internal Control Over Financial Reporting, Compliance and Federal Award Programs*.

Recommendation

We recommend the Town implement internal control policies and procedures to review, approve and record the receipts and disbursements of the Police forfeiture accounts in the Town's cashbook (maintained by the Treasurer/Collector) and general ledger (maintained by the Town Accountant).

Management's Response

The Town Manager, Treasurer, Police Chief and Town Accountant will have a meeting to resolve this issue. The Treasurer has been asked to contact other municipalities to see how they manage these accounts and a resolution will be reached which satisfies the legal financial requirements of the Town and also continues to satisfy the needs of the Police Department.

School Department

Comment

During fiscal year 2008, we performed three (3) separate engagements related to the internal controls of various financial activities of the School Department (Department). As a result of these separate engagements, we issued three (3) Reports on Agreed-Upon Procedures (RAUP) that contained various findings and recommendations related to the internal control deficiencies we identified.

During fiscal year 2009, the Department resolved all of the deficiencies we identified in the RAUP's except one. As of June 30, 2009, the Department had yet to finalize a written policies and procedures manual related to its financial activities. It is our understanding that a policies and procedures manual has been prepared in draft format only.

Recommendation

We recommend the Department review and edit (if necessary) the draft policies and procedures manual and submit the draft to the School Committee for approval. Once the manual is approved and finalized, we recommend the Department distribute and/or file the manual accordingly and utilize it to its fullest extent.

Management's Response

The School has created a Financial Procedures Manual which was approved by the School Committee.

Rental of School Buildings

Comment

In the fiscal year 2008 Management Letter, we identified several deficiencies related to the Town's rental of school buildings fund. During fiscal year 2009, the Town implemented procedures to resolve some of the deficiencies. However, the following deficiencies remain unresolved:

1. The Town maintains several different documents that outline various policies and procedures related to the rental of school buildings. Having several different policy and procedure documents creates the potential for confusion if certain policies and procedures are inconsistent amongst the various documents (example - please see Comment # 2 below).
2. The Town has inconsistent policies related to the waiving of facility rental fees. One of the Town's policy and procedure documents contains a policy that non-school related organizations classified as "Low-Risk" (which is defined in the policy document) by the Superintendent will not be charged a facility rental fee. Another of the Town's policy and procedure documents contains a policy that allows non-school related, nonprofit organizations to submit a written request to waive facility rental fees, with the waiver requests to be reviewed by the School Committee and considered on a case-by-case basis.
3. We identified the following deficiencies related to the billing and collection process:
 - a. The Town's Leisure Services Department (Leisure Services) is responsible for billing school building rentals. Leisure Services does not have policies and procedures in place to track unpaid invoices with an efficient, automated system (i.e., Excel, Quickbooks, MUNIS, etc.). Currently, unpaid invoices are tracked by periodically examining hard copy invoice files to determine if the rental payments have been received. This is inefficient, susceptible to human error and does not provide assurance that all amounts billed are subsequently paid.
 - b. Amounts owed for school building rental fees are not forwarded to the Town Accountant's office and recorded on the general ledger. As a result, monthly reconciliations of outstanding receivables cannot be performed between Leisure Services and the Town Accountant's office. Proper internal controls require all receivables to be accounted for, and recorded on, the general ledger.
4. During fiscal year 2009, the Town recorded three (3) journal entries to reclassify expenditures originally charged to other funds to the school building rental fund. When purchases of goods and services are not consistently being coded to the proper general ledger expenditure accounts, it is a breakdown in the Town's system of internal controls for recording expenditures. Internal controls should be in place to provide assurance that purchase orders and accounts payable are recorded to the correct accounts at the point of original entry.
5. MGL Chapter 40, Section 3 states that any balance remaining in the school building rental fund at the close of a fiscal year shall be paid into the general fund unless the Town has accepted a provision within the MGL that permits the balance to be carried over to the next fiscal year.

The balance in the school building rental fund as reported in the Town's general ledger as of June 30, 2009 was \$34,032. This balance was carried over to fiscal year 2010 and was not transferred to the general fund. However, the Town could not provide us with evidence that the Town had accepted the provision in the MGL that permits the balance to be carried over to the next fiscal year. Therefore, unless the Town has formally accepted the carry over provision, the balance in the fund as of June 30, 2009 should have been transferred to the general fund and all future surpluses in the fund at the end of a fiscal year should be transferred to the general fund.

Recommendation

We recommend the Town:

1. Prepare one formal, all-inclusive, detailed financial policies and procedures manual for the financial activities related to school building rental activities. Once finalized, all previous policy and procedure documents should be disregarded. The updated all-inclusive manual should then be used as the basis for training staff that are involved with the financial activities related to school building rental activities.
2. Implement one policy related to the waiving of facility rental fees. In addition, we recommend the Town maintain supporting documentation related to the waiving of facility rental fees for each occasion in which such fees are waived.
3. Implement policies and procedures to:
 - a. Track unpaid rental invoices with an efficient, automated system and to follow up on delinquent accounts. The Town should consider using MUNIS' general billing module to bill and collect all rental income. This module interfaces with the general ledger module.
 - b. Forward rental fee invoices to the Town Accountant (monthly, at a minimum) so the Town Accountant can record an accounts receivable on the general ledger. In addition, monthly accounts receivable reconciliations should be performed between Leisure Services and the Town Accountant.
4. Implement policies and procedures to reduce the risks of inappropriate expenditures being recorded to the school building rental fund at the point of original entry
5. Determine whether there has been a formal acceptance of the MGL provision that permits the balance in the school building rental fund be carried over to the next fiscal year. If so, the Town can continue with the practice of carrying over the balance each fiscal year. If not, the Town must transfer the balance in the fund at fiscal year-end to the general fund each fiscal year without exception.

Management's Response

The School has reviewed and updated the building use policy including categories for fee waivers and a waiver form.

The School Accounts Payable staff will take extra care to ensure expenses are posted properly to avoid having to process journal entries to make corrections.

The Town will collect information regarding the General Billing module in the Munis Financial software system, to see if it would be an adequate method of tracking the financial activity (billing, collections, etc.) of the fund. This would be dependent upon funding being available to purchase the General Billing module. In the meantime, the Accountant and employee of the Recreation Department responsible for invoicing and collecting fees will perform monthly reconciliations to track this.

The Town Clerk could find no record of the Town accepting the provision allowing the balance in this fund to be carried into the next fiscal year, therefore, the Accountant has informed the School Superintendent and Director of Public Works that any funds that are not committed through a signed contract or other legally binding document prior to June 30, will be turned over to the general fund at the close of each fiscal year.

Student Activity Funds

Comment

The Town maintains student activity funds for the K.C. Coombs Elementary School, Quashnet Elementary School and High School. MGL Chapter 71, Section 47, which establishes various guidelines related to student activity funds, states the following:

“There shall be an annual audit of the student activity funds which shall be conducted in accordance with procedures as agreed upon between the school committee and the auditor based upon guidelines issued by the department of education.”

During fiscal year 2009, an audit or agreed upon procedures was not performed on the Town’s student activity funds. Based upon the MGL requirement and the inherent risks associated with student activity funds, we believe that the performance of an audit or agreed-upon procedures on the Town’s student activity funds would be prudent.

Recommendation

The Town has expressed interest in having procedures performed on the Town’s student activity funds. We have provided the Town with a quote to perform these services and would be pleased to discuss our quote in further detail with Town and School management.

Management’s Response

The Town is going to recommend adding a yearly audit of the Student Activity fund to the contract for the annual town-wide financial audit.

Allowance for Uncollectible Ambulance Accounts Receivable

Comment

During fiscal year 2009, the Town did not have policies and procedures related to calculating an allowance for uncollectible ambulance accounts receivable. Proper internal controls over financial reporting require that an allowance for uncollectible accounts receivable be calculated and reported.

Recommendation

We recommend the Town develop policies and procedures related to calculating an allowance for uncollectible ambulance detail accounts receivable for financial reporting purposes.

Management's Response

The Town is going to request the Selectmen review all outstanding ambulance receivables, prior to the contracting with Coastal Medical Billing, and recommend they deem them as uncollectible. This has not been done up to this point because there has been some turnover in the ambulance billing position and the Accountant needs to be able to work with this individual to determine the correct amount of the outstanding receivable.

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

We recommend that management develop and implement a risk assessment program to periodically anticipate, identify, analyze, and manage the risk of asset misappropriation. The risk assessment program should be formally documented and become part of the Town's financial policies and procedures manual.

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 former Assistant Town Manager had begun work on developing a program directed toward risk assessment and monitoring; however, that individual is longer employed by the Town and due to financial constraints, the position is not expected to be filled in the near future. The Financial Team will work to pick up where the process was left off, in order to develop the program before the end of fiscal year 2010.

New Accounting and Financial Reporting Requirements for Fund Balances

Comment

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. 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 to clarify 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 will be made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with loans receivable. 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.

Governments will also be 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 will be required.

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

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type 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.

Implementation of this statement will improve financial reporting by:

- Providing fund balance categories and classifications that will be more easily understood
- Eliminating the *reserved* component of fund balance in favor of a *restricted* classification to enhance the consistency between information reported in the government-wide statements and information reported in the governmental funds financial statements
- Requiring governments to classify amounts consistently, regardless of the fund type or column in which they are reported
- Providing disclosures to give users information necessary to understand the processes under which constraints are imposed upon the use of resources and how those constraints may be modified or eliminated
- Reducing uncertainty about which resources can or should be reported in the respective governmental fund types

Given the significance of fund balance amounts (both quantitatively and qualitatively), the fund balance reporting under the new standard will have a significant impact on the Town's financial statements.

The Town's required implementation date of GASB Statement No. 54 is fiscal year 2011.

Recommendation

We recommend that management familiarize itself with GASB Statement No. 54 to prepare for its implementation. We would be pleased to assist the Town with its preparation for implementing the new standards.

Management's Response

The Town Accountant will become educated in the new reporting requirements in order to implement them for fiscal year 2011.