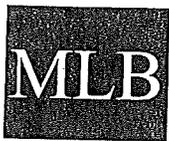


TOWN OF ROCKLAND, MASSACHUSETTS
SUGGESTIONS FOR IMPROVEMENT IN ACCOUNTING
PROCEDURES AND INTERNAL CONTROL
JUNE 30, 2011



Malloy, Lynch, Bienvenue, LLP

Certified Public Accountants & Advisors

99 Longwater Circle, Suite 200, Norwell, MA 02061
Telephone (781) 871-5850 Fax (781) 871-5840

9 Baystate Court, Brewster, MA 02631
Telephone (508) 255-2240 Fax (508) 255-2351
Internet: www.mlbcpa.net

To the Honorable Board of Selectmen
Town of Rockland, Massachusetts

In planning and performing our audit of the financial statements of the Town of Rockland, Massachusetts (the Town) as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal accounting 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies, in internal control such there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

We are also submitting for your consideration comments and recommendations which are not considered to be significant deficiencies but are intended to improve operations and internal accounting control.

The comments and recommendations presented herein are intended to improve the system of internal accounting control or result in other operating efficiencies. The factual accuracy of our comments has been discussed with management to obtain their concurrence before the development of our recommendations for improvement. Matters commented on represent findings during the audit and have not been reviewed subsequent to October 25, 2011.

A management letter is critical by nature because its purpose is to identify areas where improvements can be made. Accordingly, we have not commented on positive attributes of the Town's financial management systems. It is also important to understand that is generally not practical to achieve ideal internal control in the complex governmental accounting environment and we recognize that practical considerations are an important factor in changing administrative practices and internal control. The Town should weigh the advantages and disadvantages of the suggested changes over the present practices and procedures.

We would like to acknowledge the courtesy and assistance extended to us by Town management and personnel during our engagement.

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

Malloy, Lynch, Bienvenue, LLP
October 25, 2011

STATUS OF PRIOR YEAR COMMENTS

As part of our audit of the Town's financial statements for the year ended June 30, 2010, we had several comments and suggestions, issued in our report dated December 22, 2010. The status of these prior year comments are noted below, as applicable.

Significant deficiencies

In the prior year, we reported the following issues as significant deficiencies in the Town's internal controls surrounding financial reporting. Neither of these items has been reported as significant deficiencies in the current year.

Cash account reconciliations

In the prior year, we noted reconciliations of cash accounts and cash activity with the general ledger was not being conducted on a timely basis. For the current year audit, we noted reconciliations were completed timely at year end.

Capital asset reporting and monitoring

In the prior year, we noted several revisions associated with the Town's capital asset reporting for the year end. During the current year, we noted an improvement in the Town's reporting systems to capture capital assets as they are being incurred; additionally, no significant revisions were required for reported assets. Management should continue to insure reporting is maintained in a routine, accurate and timely manner.

Maintenance of ambulance receivable detail listing and reconciliation to the general ledger

In previous years, we had several recommendations in relation to the Town's ambulance billing. During fiscal year 2011, we noted the monthly billing commitments are being reviewed and approved by the Fire Chief. Additionally, abatements are being approved by the Board of Selectmen on an annual basis. We have been informed the Town is currently evaluating switching to a third-party servicer for ambulance billing, not only to assist in streamlining and enhancing procedures surrounding ambulance services, but also additional departmental issues addressed previously.

Implementation of formal investment policy in consideration of GASB 40 "Deposit and Investment Risk Disclosures"

Last year, we recommended the Town establish formalized policies and procedures surrounding risks and disclosures as identified in the provisions of GASB 40. We noted the Town formally adopted an investment policy October 4, 2010. Additionally, we recommended the Treasurer review the Town's current compliance with adopted provisions accordingly. See current year comments.

Reconciliation of enrollment in benefit plans and withholdings

Last year, we recommended the Town implement formalized policies and procedures surrounding the reconciliation of group health insurance invoices being paid, enrollments and withholding accounts. This recommendation is still applicable in our current year audit.

Review and enhance segregation of duties surrounding abatements processing and general ledger posting

Last year, we recommended the Town evaluate the segregation of duties surrounding the posting of abatements. During our current year audit, we noted the Town has evaluated implementation of certain procedures surrounding the processing of abatements. Motor vehicle abatements are being processed as incurred prior to the monthly "approval" by the Board of Assessors. While this is common practice among many Massachusetts municipalities, it seems contrary to the interpretation of MGL requiring prior approval of the Board. We recommend any policy be formally adopted considering all risks associated thereto.

Implementation of GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions"

Last year, we informed the Town of the new financial reporting standard effective for the year ended June 30, 2011. The Town has implemented the provisions of the standard as required.

Formalizing internal controls, policies and procedures

In the prior years, we recommended management review and establish formalized policies and procedures surrounding internal controls, financial reporting and other aspects of the Town's operations. Additionally, we recommended the Town consider review of appropriate fees structure town-wide, in accordance with GFOA and DOR guidance accordingly. These recommendations are still applicable in the current year.

Maintenance of tax title detail and records

In previous years, we recommended tax title detail be reconciled on a timely basis. Additionally, we recommended the decentralized computer (Excel) spreadsheet, which was being maintained to assist in identifying potential errors associated with the MUNIS system, continue to be maintained until all activity could be sufficiently identified, and any variance with the balance in the Town Accountant's general ledger could be isolated. While we were provided a MUNIS detail and Excel detail which indicated an unidentified variance of approximately \$4,000 with the general ledger as of June 30, 2011, a clear indication of discrepancies discovered in the Treasurer's detail during fiscal year 2011 was not available. Accordingly, we continue to recommend all detail listing continue to be maintained, and monthly activity be reconciled accordingly between the detail and the ledger. We recommend the unidentified variance should be isolated before any adjustments are made.

Accounts receivable reconciliation with the Deputy Collector

In previous years, we recommended the Town Collector perform a formal reconciliation of account balances with the Deputy Collector to those being maintained by the Town to insure the propriety of the balance and the activity that is being processed by the Deputy Collector. During our current year audit, we noted the Town Collector performed a reconciliation of each tax year from 2004-2010 based upon detail motor vehicle excise taxes being maintained by the Deputy Collector. An aggregate amount of approximately \$2,300 was determined "uncollectible" and was approved by the Board of Assessors as such. We continue to recommend this procedure be continued on a routine basis.



Maintenance of change orders

In the prior year, we noted several change orders were not on file in the Town Accountant's office. We noted change orders tested in the current year were maintained on file. However, we continue to recommend the Town determine the propriety of certain signatory authorities of employees binding the Town in contractual relationships (inclusive of change orders).

CURRENT YEAR COMMENTS

As a result of our audit for the year ended June 30, 2011, we make the following comments and recommendations.

Deposit and investment of funds

As previously stated, during fiscal year 2011, the Town adopted a formal policy to address depository and investment considerations. During our audit, we noted certain provisions of the policy were not complied with, including exceeding depository amounts above established limits. Additionally, it appears that funds were maintained in certain money funds which have not been included as legal investments by the Division of Banks. In September 2011, we noted the Treasurer transferred approximately \$3.1 million of these funds into the Town's depository account, which is fully collateralized.

While the adaptation of a formal investment policy is important, it is equally important to insure that the provisions of the policy are complied with as dictated. All established policies and procedures should be continually monitored by treasury personnel to insure compliance with established requirements. Additionally, policies and procedures should be reviewed in conjunction with other governmental statutes. In the current environment of seemingly constant changing financial legislation, it is of increased importance for established policies and procedures to be regularly monitored, and amended and/or streamlined as may be appropriate. Additionally, such policies should provide mechanisms which allow for additional review and monitoring by other members of management, as well as those charged with governance. This could include, but not be limited to requiring routine, periodic reporting of results, investments, and documentation of compliance with depository and investment policy provisions. We recommend the Town review current policies and procedures accordingly.

This noncompliance issue has been reported in our *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements performed in Accordance with Government Auditing Standards*.

Reconciliation of enrollment in benefit plans and withholdings

In prior years we have recommended the Town Treasurer implement more formalized procedures to reconcile health enrollments and other withholding accounts on a routine basis. During the year, we noted procedures have been implemented to reconcile health insurance enrollments with the invoices from the health group.

During our current audit procedures, we noted an adjustment to state withholding and savings bond withholding accounts for a misposting of a payment in December 2010. This was noted as a part of the year-end closeout. Additionally, per our discussions with the Town Accountant and Treasurer, certain immaterial amounts remain in school department withholding accounts for which a determination has yet to be made. It is imperative that reconciliations be performed on a routine basis. All personnel should work cooperatively to reconcile invoices to appropriate enrollments and withholdings to insure the propriety of both amounts withheld and payments made.

Reconciliation of enrollment in benefit plans and withholdings (continued)

Policies and procedures for performing, documenting and reporting to the appropriate officials (Town Accountant and Treasurer), should be formalized to insure these reconciliations are indeed performed on a regular basis and errors, are *“prevented, detected and corrected on a timely basis”*.

Continued enhancement of receivable reconciliations

While we have noted certain improvements in the reconciliation of Town Collector receivable balances with the general ledger, as of June 30, 2011, we noted approximately a \$32,000 negative receivable balance being reported for 2009 real estate taxes. Per our review with the Collector, this amount represented aggregate overpayments being made against numerous accounts, many of which were a result of duplicate payments (bank and taxpayer) made against the account for the supplemental tax assessment for that fiscal year. This became apparent upon the transfer of accounts to tax title which was performed in June 2011.

We recommend additional procedures be implemented to include, but not be limited to, “flagging” accounts for further investigation of accounts which already have full payments “posted”, routinely generating monthly “credit balance reports”, and generating the monthly subsidiary detail reports are generated with “credit balances” being identified. We have been informed this is to be performed currently.

Chapter 90 Highway funds reimbursement requests

We noted reimbursement requests for Chapter 90 highway projects for funds which were received in September 2011. These reimbursement requests, approximating \$475,000 were not on file in the Town Accountant’s office. These reimbursement requests are required to be approved not only by the Highway Surveyor, but also the Town Accountant and the Board of Selectmen. We recommend the Town review established procedures to insure copies of these reimbursements are properly maintained.

Internal controls, formalized policies and procedures

As previously noted, management is responsible for the implementation, and maintenance of adequate internal control policies and procedures. It is important that the Town continue to address financial practices are documented in a generalized manner. It is of increased importance to document specific procedures, including “key” internal controls to provide a structure in which misstatements and errors (intentional or otherwise) are *“prevented, detected and corrected on a timely basis”* in the normal course of daily functions of processing the associated transactions.

During our current audit, we were informed by management that certain departments (library) maintained custody of cash for extended periods of time before turnover to the Treasurer and without sufficient documentation related thereto. Also during our audit, as in prior years, we noted instances of departmental turnovers to the Treasurer with minimal descriptions/detail as to the source of funds being submitted. Sufficient detail should accompany all departmental turnovers which allow sources to be identified by Town officials in a relatively easy manner, as well as provide for “audit trail” back to departmental records. Formalized policies and procedures should be maintained for all departments which include, but are not limited to, detail daily functional operations, routine formalized reporting of activity, and reconciliations to management (including student activities).

Internal controls, formalized policies and procedures (continued)

Under current accounting and auditing standards, all entities are required to address “risks” associated with established control structures, personnel, operating environment, and fraud related risks. While ideal internal controls, inclusive of segregation of duties, are often not possible in a complex government environment, it is even more important that established policies and procedures be sufficiently formalized to provide individuals a clear framework to insure day-to-day functions are “documented, approved and performed in a timely manner to ensure misstatements and errors are *“prevented, detected and corrected in a timely manner.”* This not only insures the propriety of the transaction being processed, but assists in diminishing the amount of time that may be involved in investigating discrepancies long after they may have occurred

Formalized, routine “risk assessments” provide a mechanism for established procedures to be reviewed in accordance with an ever changing operational environment (i.e. statutes, accounting and other requirements). An established procedure at one point in time may not be adequate or appropriate at another. Additionally, the performance of “internal audit” and “spot checks” by management (i.e. Town Accountant, Treasurer, etc.) as indicated above also is a vital tool which should continue to be incorporated into the Town’s control environment on a routine basis. Such formalized risk assessments and internal audit programs provide a means to evaluate the “cost-benefit” of certain internal control policies and procedures and the level or degree of “risk of loss” both management and those charged with governance are willing to accept.

We continue to recommend consideration should be given to the establishment of a formalized committee (inclusive of an audit committee) which would meet on a regular basis to address these issues. Policies and procedures should provide a clear framework to meet appropriate objectives, and provide for accountability.

