

TOWN OF ROCKLAND, MASSACHUSETTS

**SUGGESTIONS FOR IMPROVEMENT IN ACCOUNTING
PROCEDURES AND INTERNAL CONTROL**

JUNE 30, 2008

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December 9, 2008

To the Honorable Board of Selectmen
Town of Rockland, Massachusetts

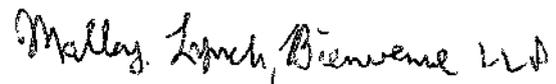
In connection with our audit of the financial statements of the Town of Rockland, Massachusetts (the Town) for the year ended June 30, 2008, we are presenting, for your consideration, our comments and recommendations regarding internal control and other matters. The purpose and extent of our study and evaluation of the Town's system of internal control is described in our separate report dated December 9, 2008, issued in conjunction with the audit.

The comments and recommendations presented herewith in 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 December 9, 2008.

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 many positive attributes of the Town's financial management systems. It is also important to understand that it is generally not practical to achieve ideal internal control in the complex governmental accounting environment.

We would like to commend management and other departmental personnel for their progress in implementing many recommendations on findings presented in previous years. We would like to acknowledge the courtesy and assistance extended to us by Town personnel during our audit.

Very truly yours,



Malloy, Lynch, Bienvenue, LLP

STATUS OF PRIOR YEAR COMMENTS

As part of our audit of the Town's financial statements for the year ended June 30, 2006, we had several comments and suggestions, issued in our report dated December 18, 2007. The status of the comments are noted below, as applicable.

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. We noted the Town continues to attempt to address issues relating to the ambulance billing. See also current year comments.

Research unrecorded bank accounts

Last year, we noted one non-Town related account established under the Town's identification number. We noted the Treasurer had this account removed from the Town's identification number. We noted no additional accounts in the current year audit.

Reconciliation of assessment for participation in the Retired Municipal Teachers Program

Last year, we recommended that a listing be received by the Town for assessed enrollees in the Commonwealth of Massachusetts' Retired Municipal Teachers Program health insurance program (RMT) and be reconciled to Town records. This listing has been received and reviewed by the Treasurer noting no discrepancies.

Trust Funds

In previous years, we recommended that the record keeping for trust funds maintained by the Treasurer be reviewed and updated to be more comprehensive on reporting between cost and market value summary totals. Corrective action has been implemented in the current year relating to recording unrealized gain/loss.

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 in accordance with the provisions of GASB 40; furthermore, we recommended the information required to be disclosed be prepared prior to the commencement of the audit. We were presented with required disclosure information in a timely manner in the current year. However, we have been informed that a formalized investment policy has been drafted, but has not been formally approved.

Implementation of GASB 45 "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions"

Last year, we informed the town of the need to begin planning for implementation of the requirements of another new accounting standard, GASB 45. The Town has budgeted funds in FY2009 to have the required actuarial valuation performed and is currently evaluating proposals accordingly.

Implementing an internal audit plan/program and departmental turnovers

Last year, we recommended the Town implement an ongoing, formalized internal program, including the collection of cash receipts at the departmental level, and School Department revolving and agency accounts that evaluates and addresses risks related to, and procedures for, detecting fraud. This recommendation is still applicable in our current year audit. See current year comment on risk assessment.



Maintenance of detail listings and reconciliation of other receivable balances to the general ledger

Last year, we recommended that personnel review and update the policies and procedures currently in place surrounding the maintenance of detail listings and the reconciliation of receivable balances to the general ledger. We noted improvement in reconciling certain receivable detail balances (property taxes, excise) to the general ledger. Detail outstanding lists were generated at June 30, 2008, and we were informed the Treasurer is continuing to investigate reasons for variances in "tax title" detail listing maintained to the balance reported in the general ledger. We continue to recommend management review policies and procedures to ensure balances reported in the general ledger reconcile to detail listings. See also current year comments.

Investing public funds in compliance with Massachusetts General Law (MGL)

Last year, we recommended the Treasurer review MGL Chapter 44, Section 55 for limitations placed on public funds (non-trust funds) on deposit. Included in this provision is that funds cannot be in certificates of deposit that have a maturity from date of purchase of more than one year. We noted the Treasurer has taken corrective action on these certificates of deposits as they matured during the year.

Preparation of minutes of Board of Selectmen meetings

Last year, we noted minutes of the Selectmen's meetings were not prepared. Meetings are available through "audio-tape". We recommend the Town review procedures to insure the preparation of minutes in a timely manner. This recommendation is still applicable in the current year.

CURRENT YEAR COMMENTS

As a result of our audit for the current year ended June 30, 2008, we make the following comments and recommendations.

New auditing standards – "Risk Assessment"

Auditing standards, collectively called the "risk assessment standards" became applicable to entities in fiscal year 2008. These standards continue to stress management's responsibility for financial statements and internal control in comparison to work required to be performed by an outside independent auditor. Increasingly, emphasis has been placed on reaffirming management's responsibility for the financial statements, financial reporting, and implementing and monitoring an appropriate level of internal control surrounding the entity's financial reporting to not only to safeguard assets, detect and prevent financial reporting misstatements, but also to prevent and detect fraud.

It has become more important for entities to routinely review established internal control policies and procedures, and periodically performing a risk assessment, and document it. Absent formalized risk assessments by entities, auditors may have to issue a modified report to reflect this, depending upon the surrounding facts and circumstances.

While many departments have policies which are generally followed, the need to more formally document these policies and procedures has increased. While each department may have characteristics unique to itself, a consensus of certain requirements (i.e. reporting, cutoff periods, etc) should be standardized.

Management should consider establishing a committee of appropriate Town and School officials to periodically review, and document Town internal controls, and associated risks (including fraud) of the Town. These new standards reaffirm management's responsibility to continually take a "proactive approach" related thereto. We have been informed that a fraud policy is being developed.



Tax and utility receipts

As a result of our audit work relating to activity in the Town Collector's office including receipts for water, sewer and trash posted by respective departments, we make the following comments and recommendations:

- We noted outstanding receivable balances maintained by the Deputy Collector haven't been reconciled with the Town's outstanding receivable detail as of June 30, 2008. It is essential all detail lists of outstanding amounts to be collected by the Deputy Collector be formally reconciled to the Town's detail outstanding lists on a routine, periodic basis to ensure completeness. We recommend such reconciliations be performed on a bi-annual (at minimum) basis. All reconciliations should be formally documented and maintained on file; all work should be properly "attested to" by both the preparer and appropriate supervisory staff.
- We noted several instances of departmental turnovers being submitted to the Treasurer, subsequently being corrected for incorrect amounts. In these instances, the aggregate deposit amount didn't change; however, certain breakout between the various types of receipts had to be corrected due to errors in amounts originally reported in the daily cashbook. We were informed that daily receipts are entered into the computerized (Munis) system, daily totals are entered into the cashbook which are used to complete the turnovers. We recommend personnel be reminded of the importance of recording information in the cashbooks properly, and further reconciling departmental turnovers to the computerized (Munis) system prior to reporting to the Treasurer. In the event adjustments are necessary, all adjustments should be clearly identified and documented and "attested to" by appropriate supervisory personnel. Accurate reporting will reduce the amount of time all personnel within the financial departments (collector, treasurer, and accounting) spend in reconciling activity. We have been informed that procedures have been implemented currently to address this issue.
- We noted during the year monthly "credit balance" reports are not being generated and maintained on file. We recommend these reports be generated at the end of each month. We noted the Collector sent letters to taxpayers in August 2008 indicating credit balances exist in their account, and requesting proof of overpayment prior to a refund being processed. We recommend this procedure be performed more frequently throughout the year.
- We noted the Town accepts "on-line" payments for taxes and utilities. Although, the "transaction detail" identifying each day's activity is printed daily, notification of these payments to other departments (water, sewer, trash) are not made in a timely manner. These "on-line" transactions should be daily as are all over-the-counter and mail receipts. All departments should subsequently post the payment as of the date actually paid, not the date received from the Collector's office. Policies and procedures should allow a reasonable amount of time for cutoff of activity at month's end prior to departmental closeouts (i.e. receivable balances). We have been informed by personnel that these payments are being processed on a daily basis in the current fiscal year.
- During our audit, we selected a sample of cash receipts and noted instances of actual processing of payments within the Collector's system between 7 and 19 business days after the actual date of payment. From the sample selected, we noted these accounts were given credit for the actual date paid. Furthermore, we noted certain computerized daily cash detail batch reports were either filed out of order or were not easily found within the appropriate binders. We recommend steps be implemented to process daily activity within a reasonable period of time. Care should be taken to organize and properly file all work and reports chronologically, and utilize "tabs" or other means to segregate reports in a meaningful manner (i.e. days, week, etc).
- We recommend more formalized documentation be maintained to support any corrections for "misapplication" of utility payments. Currently, a departmental turnover (either positive or negative) is generated to identify the misposting. Formalized documentation should be attached to support the correction and be signed by appropriate supervisory personnel (inclusive of directives from taxpayers indicating such).
- We noted currently water department system development charges are being collected at the water department. We recommend all these fees be collected through the Collector's office.

Tax and utility receipts (continued)

- We recommend the Town evaluate additional controls over cash collections within the Collector's office, inclusive, but not limited to, evaluation of access to cash drawer, utilization of a cash register, use of pre-numbered receipts for all over-the-counter payments, more formalized daily cashout (i.e. cashout sheet) and adequate segregation of duties.

As a result of the comments above as well as changes that have occurred within the Collector's office over the years, including changes in staffing levels, responsibilities, technology, etc., we recommend that management perform a review of departmental procedures and processes of work flow with a goal of improving worker efficiency.

Ambulance billing and receivables

As of June 30, 2008, we noted approximately a \$43,000 variance between the receivable balance reported in the general ledger and the detail being maintained by the fire department. As in previous years, personnel have continued to attempt to reconcile these amounts. We have been informed by personnel that the fire department has implemented new billing software in the current fiscal year. However, we have been informed that currently, this software does not have an accounts receivable module. Personnel are currently evaluating if such a module can be obtained. We continue to urge management to implement procedures to properly monitor and reconcile the outstanding receivable balance.

Unapportioned sewer betterment receivables

The Assessor's Office maintains information on outstanding unapportioned sewer betterments on a manual card system. This information is also maintained on a computerized system; however, we were informed by personnel that the computerized system may not be accurate and is not properly utilized. To improve worker efficiency, we recommend personnel be trained on the computerized system in order to properly utilize such system and eliminate duplication of the manual card system. In addition, reconciliations to the general ledger should be performed.

Approval of Town warrants

During our audit, we noted several instances of the Town Clerk signing warrants in place of selectmen members. MGL Chapter 41, section 56 has a provision for the Town Clerk to sign warrants in the event of a "failure to elect or a vacancy occurs in the office of selectmen". The Town operated under previous DOR guidance provided to another municipality indicating "vacancy" included "temporary" absences, as well as absences due to resignation, death or incapacitation. We recommend the Town review further, inclusive of obtaining a specific ruling from DOR related to specific circumstances relative to the Town of Rockland.

Approval of School Warrants

During our audit, we noted the Superintendent has not been signing warrants indicating approval of amounts to be paid. Massachusetts General Law requires, and we recommend, the Superintendent authorize all warrants for payment in addition to the School Committee. In addition, we recommend the School Department Business Manager sign these warrants as reviewed and approved accordingly.
