

TOWN OF ROCKLAND, MASSACHUSETTS

SUGGESTIONS FOR IMPROVEMENT IN ACCOUNTING
PROCEDURES AND INTERNAL CONTROL
JUNE 30, 2009



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December 24, 2009

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, 2009, 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 24, 2009, 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 24, 2009.

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 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.

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 December 24, 2009.

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

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.

Very truly yours,


Malloy, Lynch, Bienvenue, LLP

INTRODUCTION

Current accounting and auditing standards applicable to entities 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.

In planning and performing our audit, we considered the Town's internal control over financial reporting 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 over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Current auditing standards have also redefined certain internal control conditions that are required to be reported during the audit of the entity's financial statements. These definitions are as follows:

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 combination of control deficiencies, that adversely affects an organization'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 organizations financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of an organization's financial statements will not be prevented or detected by its internal control.

Under these more stringent accounting and auditing standards, certain issues relating to an entity's internal control may be required to be reported as a "*deficiency*" under one of these classifications where none may have been reported in previous years. Accordingly, it is important for management to formally and routinely evaluate and document internal control policies and procedures in relation to desired objectives. Furthermore, certain new requirements by the state and federal government require formalized policies and procedures to be implemented which address issues such as personal information and risks of identity theft.



STATUS OF PRIOR YEAR COMMENTS

As part of our audit of the Town's financial statements for the year ended June 30, 2008, we had several comments and suggestions, issued in our report dated December 9, 2008. 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.

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. This recommendation is still applicable in the current year audit.

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 implemented the provisions of GASB 45 as required.

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.

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

Last year, we recommended management review policies and procedures to ensure balances reported in the general ledger reconcile to detail listings. This recommendation is still applicable in our current year audit. See also current year comments.

Preparation of minutes of Board of Selectmen meetings

Last year, we recommended the Town review procedures to insure the preparation of minutes in a timely manner. The Town has implemented procedures to maintain minutes in a timely manner.

New auditing standards – "Risk Assessment"

Last year, we recommended management implement policies and procedures to perform "risk assessments" of internal controls, financial reporting and other aspects of the Town's operations. We recommended management implement a formalized fraud policy, and consider establishing a committee of appropriate Town and School officials to periodically review, document, update policies and procedures accordingly. This recommendation is still applicable in our current year audit.

Tax and utility receipts

Last year we had several comments relating to the functions in the Town Collector's office. Due to a change in the elected position, many of these recommendations were not implemented in the current year. These recommendations are still applicable in our current year audit. We have been informed by the current Town Collector that policies and procedures surrounding the operations of the office and related functions are being implemented during fiscal year 2010.

Ambulance billing and receivables

Last year, 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. We recommended the Town implement procedures to properly monitor and reconcile outstanding receivables. The Town adjusted the general ledger balance to actual amounts outstanding per the department as of June 30, 2009.

Unapportioned sewer betterment receivables

Last year, we recommended the Assessor's Office 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. While a reconciled listing was provided for the year ended June 30, 2009, we continue to recommend management monitor the maintenance of these systems ongoing.

Approval of Town warrants

Last year, we noted several instances of the Town Clerk signing warrants in place of selectmen members. We recommended the Town review further, inclusive of obtaining a specific ruling from DOR related to specific circumstances relative to the Town of Rockland related thereto. We noted no such instances in the current year audit.

Approval of School Warrants

Last year, we recommended the Superintendent authorize all warrants for payment in addition to the School Committee in accordance with Massachusetts General Law. We further recommended the School Department Business Manager sign these warrants as reviewed and approved accordingly. Both the Superintendent and the Business Manager are approving warrants.

CURRENT YEAR COMMENTS

As a result of our audit for the year ended June 30, 2009, we make the following comments and recommendations.

Significant deficiencies

Under current auditing standards as defined above, the following have been determined to be significant deficiencies in internal control.

Accounts receivable reconciliations

We noted during the audit that formalized reconciliations of account receivable balances as reported in the general ledger were not reconciled to the underlying detail listings on a routine, periodic basis. Although receivable balances were ultimately reconciled for the year ended June 30, 2009, we noted certain (immaterial overall) adjustments were made to certain receivables to adjust these balances to the actual detail outstanding lists during the Town's year-end close-out procedures.



Significant deficiencies (continued)

Accounts receivable reconciliations (continued)

In addition, we noted the following related to receivables:

- Fiscal 2010 motor vehicle excise commitments aggregating approximately \$272,000, committed subsequent to year-end were erroneously included in June 30, 2009 balances. Adjustments were subsequently recorded to reflect proper balances at year end.
- Upon change in the office of Town Collector, uncollected receivable balances were not “recommitted” to the current Collector.
- Outstanding balances being collected by the Deputy Collector were not reconciled to detail lists maintained by the Town Collector. We have been informed this listing has been obtained in the current year, is in the processes of being reconciled. We recommend this procedure be performed on a routine, periodic basis (at minimum, bi-annually).
- We noted a parcel for which the Town foreclosed upon during fiscal year 2009, wasn’t moved from tax title to tax possessions. We have been informed this adjustment is to be made in the current fiscal year.
- Although the Treasurer’s tax title “control spreadsheet” reconciles to general ledger as of June 30, 2009, the Treasurer is currently recreating a detailed computerized (Excel) spreadsheet, detailing activity and amounts being held in tax title, which will be used to reconcile to the “control sheet”.
- Variance in ambulance receivable from previous year of approximately \$41,000 was adjusted to actual.

The Town experienced significant changes and vacancies in personnel during the fiscal year which contributed to this condition. Based upon our discussions and review with management, with the addition of new personnel, additional and enhanced reporting and reconciliation procedures have been implemented subsequent to June 30, 2009, which management intends will address this deficiency accordingly.

Cash reconciliations

We noted during our audit, formalized reconciliations of cash balances between the treasury and the general ledger were not performed on a routine and timely basis. Furthermore, we noted that cash balances between the Treasurer and the Town Accountant were not reconciled until after the commencement of our audit.

Again, we noted significant changes in personnel and vacancies during the fiscal year contributed to this condition. Furthermore, we noted an adjustment of approximately \$14,000 for fair market value reporting had to be made for incorrect reporting during the year. We noted a final immaterial variance in the cash balances of approximately \$900.

Based upon our discussions and review with management, additional and enhanced reporting and reconciliation procedures were implemented subsequent to June 30, 2009 during the close-out process to streamline the fair market reporting on a monthly basis, as well provide for more timely, and formalized reconciliations.

In both of the aforementioned deficiencies, it is important for personnel to routinely evaluate policies and procedures implemented, to insure that such policies and procedures are designed and operated in such a manner that allow for the detection of errors on a timely basis. Management has adopted enhanced procedures in the current fiscal year to address these deficiencies.



Reconciliation of enrollment in benefit plans and withholdings

During our audit procedures, we noted an instance of a former school department employee for whom the Town was still paying dental premiums to the Plymouth County Health Group. Upon review with Town personnel, this employee apparently hasn't worked for the Town since the year 2000.

Current procedures surrounding the enrollment and termination of employees should be reviewed to insure the Town is paying benefits for appropriate individuals. All lists accompanying the monthly premium invoice should be formally reconciled to a master database of membership maintained by the Treasurer. All changes in status must be communicated formally to the Treasurer's office in a timely manner. Procedures should be implemented to conduct a review of terminations/additions in the each department's payroll on a monthly basis with each benefit plan enrollment. Furthermore, withholding accounts should be more formally reviewed and reconciled to ensure propriety of amounts.

All policies and procedures should be formalized and communicated through the appropriate supervisory channels. Furthermore, all steps throughout the reconciliation process should be formally "attested to" by the appropriate staff and supervisory personnel.

Monitoring and release of overlay balances

We noted as of June 30, 2009, the Town had aggregate balances in the overlay accounts for fiscal years prior to 2009 in the amount of approximately \$263,000. Corresponding aggregate real estate and personal property receivable balances for those years amounted to approximately \$133,000. Overlay balances should represent anticipated abatements, and exemptions associated with each tax year. We recommend the Town formally review and document "potential liabilities" associated with the overlay accounts. Any determined surplus should be "released" by the Board of Assessors in a timely manner.

Water –capital projects

During the year we noted certain water related capital project fund balances were in deficit as of June 30, 2009. Although these amounts are immaterial to the Town's financial statements taken as a whole, deficit balances for which financing hasn't been obtained prior to June 30 are deducted from the Town's free cash.

It is important for the Town to monitor the timing of proposed projects and coordinate the appropriate fund of these projects in a timely manner.

Massachusetts Data Security Law & Federal Trade Commission (FTC) "Red Flag" Rules

Both the Commonwealth of Massachusetts and the federal government have issued new regulations designed to address issues of identity theft.

The Commonwealth's "data security law" requires entities to develop more comprehensive measures to protect and store personal information both in the paper and electronic environments. The state Office of Consumer Affairs and Business Regulation (OCABR) has extended the deadline for Massachusetts employers to comply with the new law until March 1, 2010. While currently not applicable to municipalities, we recommend the Town consider the value of implementing such policies and procedures.

The Federal Trade Commission (FTC) has issued so-called "Red Flag" rules that establish how organizations must develop, implement, and administer written Identity Theft Prevention Programs (Programs).



Massachusetts Data Security Law & Federal Trade Commission (FTC) “Red Flag” Rules (continued)

These “Red Flag” rules apply to “financial institutions” and “creditors”. Under the regulation’s broad definition of “creditor” include organizations “that regularly defer payment for goods or services and bill customers later”. Accordingly, municipalities having utilities (i.e. water, sewer, etc) generally may fall within the definition. As defined by the FTC, “red flags” refer to “suspicious patterns or practices, or specific activities that indicate the possibility of identity theft”. These rules define basic requirements Programs must include to identify, detect, and respond to and re-evaluate new risks of identity theft.

The FTC has extended the deadline for compliance with the “Red Flag” rules until June 1, 2010. We recommend management review guidance provided by the FTC to insure that a formalized review of the applicability of these regulations to all aspects of the Town are evaluated and documented accordingly in accordance with the appropriate deadlines.

Form W-9 Form 1099 and other compliance

During our current year audit, we noted several instances of Form W-9 not being on file for several vendors. It is important the Town review established policies and procedures for maintaining all Form W-9 forms for all vendors. Form W-9 was developed by the IRS to serve as the “request for taxpayer identification number” to identify whether the entity is subject to tax withholdings. Internal controls should insure that no new vendors are input into the computerized accounting system for payment unless a properly executed Form W-9 is on file for that vendor. Furthermore, we recommend a formal review of all Form W-9’s be performed prior to the issuance of 1099 at the end of each calendar year to insure all appropriate vendors receive a 1099. We recommend the Town, update their files accordingly.

In addition, during our audit testing, we noted a clothing allowance being reimbursed through the vendor warrant process. Current IRS guidance requires clothing reimbursements to be included in an employee’s taxable wages, with certain exceptions. Accordingly, such allowances should be being paid through payroll to insure inclusion in the employees’ W-2 reporting. We recommend the Town review these allowances and their treatment in accordance with federal guidelines.

Payment of wages

During our audit, we noted instances of certified approved departmental payroll wages not being paid within the timeframe as outlined by Massachusetts General Law (MGL). Pursuant to MGL Chapter 149, section 148, indicates “employees shall be paid weekly or bi-weekly the wages earned by him within six days of the termination of the pay period during which the wages were earned if employed for five or six days in a calendar week, or within seven days of the termination of the pay period during which the wages were earned if employed seven days within a calendar week”.

Accordingly, it is important for the Town to insure wages are paid within appropriate guidelines. Management should review all collective bargaining agreements, and current practices for all Town departments to insure “pay periods” are documented, account for work that has been completed, and are paid within prescribed timeframes as indicated by MGL.



Internal controls, formalized policies and procedures

As stated in our introduction, current accounting and auditing standards have significantly reaffirmed management responsibility for establishing, maintaining effective internal controls surrounding financial reporting, as well as evaluating an entity's risks, including fraud related risks. Therefore, it is vital that those charged with governance, management and other personnel are conscious of the objectives of each department's functions and how they relate not only to the financial reporting of the Town, but also its compliance with applicable laws and regulations, and overall effectiveness and efficiency of operations.

In addition, with the enactment of the American Reinvestment and Recovery Act of 2009 (ARRA), a heightened scrutiny has been placed upon not only federal award programs as a whole, but also the overall internal control, financial reporting structure and associated risks (inclusive of custodial credit risk) of an entity. Accordingly, it is imperative that management and those charged with governance constantly monitor, evaluate and revise as appropriate policies and procedures of the entity.

All formalized policies and procedures should provide a clear framework to meet appropriate objectives, provide for accountability, and provide continuity in the event of personnel changes. Such policies and procedures should include, but not be limited to, examining and documenting departmental internal controls, routine review of compliance with laws and regulations, providing clear segregation of duties as appropriate, defining "fraud" as it relates to departmental functions, formal communication of established policies/procedures to employees, instituting potential mechanisms for reporting fraud (i.e. anonymous tip lines, rewards), identifying potential abuses and defining associated penalties.
