

**TOWN OF ROCKLAND, MASSACHUSETTS**  
**SUGGESTIONS FOR IMPROVEMENT IN ACCOUNTING**  
**PROCEDURES AND INTERNAL CONTROL**  
**JUNE 30, 2010**



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December 22, 2010

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, 2010, 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 December 22, 2010.

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

## **STATUS OF PRIOR YEAR COMMENTS**

As part of our audit of the Town's financial statements for the year ended June 30, 2009, we had several comments and suggestions, issued in our report dated December 24, 2009. The status of these prior year comments are noted below, as applicable.

### **Significant deficiencies**

Last year, 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*, we reported the following as significant deficiencies:

#### **Cash reconciliations**

Last year, we noted formalized reconciliations of cash balances between the treasury and the general ledger were not performed on a routine and timely basis. While we noted certain procedures have been implemented in the current year, we continue to report this as a significant deficiency in the current year. See current year comments and recommendations.

#### **Account receivable reconciliations**

Last year, we noted instances of mis-postings, unidentified variances, and certain other issues relating to the Town's accounts receivable balances which we considered to be significant deficiencies. During our current audit, we noted personnel have implemented certain procedures to improve certain aspects of the reconciliation process. While, we note improvement, we continue to recommend the Town continually monitor implemented procedures to further enhance its financial reporting surrounding receivables. See current year comments and recommendations.

#### **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 enhanced its reconciliation procedures during fiscal year 2010 related thereto. As of June 30, 2010, the Town reported a receivable balance of approximately \$1.2 million and an allowance for uncollectible accounts of \$448,000. We continue to recommend the Town monitor the receivable balance and evaluate abatements on a regular basis. We continue to recommend that monthly commitments be reviewed and approved by the Fire Chief, rather than solely by the Administrative Assistant. In addition, abatements of uncollectible accounts should be performed periodically during the year.

#### **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. We noted the Town formally adopted an investment policy October 4, 2010. We recommend the Treasurer review the Town's current compliance with adopted provisions accordingly.

#### **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. The Town Accountant and Town Collector have enhanced reconciliation procedures subsequent to the issuance of our prior year audit, which include a formalized reconciliation of control and detail balances currently.



### **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. See also our current year comments and recommendations.

### **Monitoring and release of overlay balances**

Last year, we recommended the Town formally review and document “potential liabilities” associated with overlay accounts, and any determined surplus should be “released” by the Board of Assessors in a timely manner.

As of June 30, 2010, the Assessing office estimated the potential outstanding obligation to approximate \$263,000. This adjustment has been reflected in the Town’s financial statements accordingly. We continue to recommend these overlay balances be monitored and any surplus be released in a timely manner.

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

Last year, we advised the Town of the applicability of the Federal Trade Commission (FTC) so called “Red Flag” rules since according to the regulation’s broad definition of “creditor”, municipalities having utilities (i.e. water, sewer, etc) generally 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. This recommendation is still applicable in the current year audit. The FTC has delayed enforcement of the regulation until December 31, 2010.

While currently not explicitly applicable to Massachusetts municipalities, we recommended the Town consider the Commonwealth’s newly implemented “data security law” implementing a formalized policies and procedures which address measures to protect personal information in the paper and electronic environment. This recommendation is still applicable in our current year audit.

### **Form W-9 Form 1099 and other compliance**

Last year, we recommended the Town update the vendor files for current Form W-9 forms for vendors to insure appropriate vendors are issued form 1099 on a calendar year basis. We have been informed the Town Accountant has implemented procedures to address updating existing files as time permits. It should be noted that the IRS has proposed regulations which may require additional reporting pursuant to 1099 requirements in future periods. We recommend the Town continual review appropriate rules and regulations related thereto.

Last year, we also recommended the Town review certain clothing allowances being processed through the vendor warrant process. Current IRS guidance requires clothing reimbursements to be included in an employee’s taxable wages, with certain exceptions (i.e. for safety or security). Accordingly, such allowances should be being paid through payroll to insure inclusion in the employees’ W-2 reporting. We have been informed the Town is addressing these reimbursements in the current year.

### **Payment of wages**

Last year, we recommended the Town review all collective bargaining agreements and current practices for all Town departments to insure “pay periods” account for work that has been completed, and are paid within prescribed timeframes as indicated by MGL. All “pay periods” for each department should be formally documented. This recommendation is still applicable in the current year.



## **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. We noted the Town has adopted certain additional policies (internet, fraud) in the current year. We continue to recommend the Town incorporate formalized "risk assessment" procedures to evaluate not only implemented policies but also the effectiveness of such policies.

## **CURRENT YEAR COMMENTS**

As a result of our audit for the year ended June 30, 2010, 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.

#### **Cash account reconciliations**

During our current year audit, we noted the Town Accountant has implemented procedures to reconcile the cash receipts and disbursements as reported from the Treasurer's office via the weekly "cashbook" activity record maintained by treasury personnel, summarizing the receipts and disbursements for the period. However, we noted, reconciliations of the Treasurer's bank statements to the "cashbook" were not being performed and submitted to the Town Accountant's office for completion of the reconciliation process in a timely manner. While we did note some improvement over the prior year, we noted April, May, and June were not provided to the accounting office until after July 1, 2010. We continue to recommend personnel address procedures to complete all required reconciliations in a timely manner.

#### **Capital asset reporting and monitoring**

During our current year audit, we noted instances in which the water department capital asset reporting had to be revised several times, and certain other general Town capital assets were missing or misclassified between fiscal years in the 2010 capital asset reporting. While, these revisions and omissions were due in some part to varying and incorrect interpretations of GASB capital asset reporting requirements, and changes in clerical personnel at year-end in the accounting office, we believe it is important for a more frequent reporting and reconciliation of asset activity throughout the year. As with many Massachusetts municipalities, capital asset reporting and reconciliations to the underlying accounting records receives the highest degree of scrutiny after the fiscal year has been closed and relevant information is required for the financial statement audit. We believe a more frequent reporting and reconciliation (i.e. quarterly, bi-annually) is vital to insure the accuracy and timely reporting of capital asset.

### **Reconciliation of enrollment in benefit plans and withholdings**

During our current audit procedures, we noted a former Town and a former School Department employee for whom the Town was still paying dental premiums to the Mayflower Health Group (the Group) since 2007 and 2006 respectively.

As a result of our prior year audit, the Town Treasurer implemented procedures to reconcile the enrollments being invoiced to the Town's records, which require personnel to "highlight" the employee, indicating the enrollment as correct. The former Town employee was identified in the reconciliation of the May 2010 invoice from the Group. The School employee, who we were informed has apparently been deceased, was identified as a result of our audit procedures. Based upon our subsequent discussions, the Treasurer is following up on the documentation relating to the departure of these individuals and any credit available from the Group.



### **Reconciliation of enrollment in benefit plans and withholdings (continued)**

While procedures are being implemented to attempt to address reconciliation of the health group's invoicing, it is imperative that a supervisory review of all procedures performed and "attested to" by subordinates be performed prior to invoices being placed upon the warrant. Any individuals that have not been "highlighted" according to established procedures should be immediately investigated. We continue to recommend withholding accounts be more formally reviewed and reconciled to ensure propriety of amounts.

### **Maintenance of tax title detail and records**

We noted the Town Treasurer reconciled tax title receivable balances for June 30, 2010, with the Town Accountant's general ledger in November of 2010. During fiscal year 2010, the Treasurer created a detailed computerized (Excel) spreadsheet, detailing activity and amounts held in tax title in order to identify a \$30,000 variance with the general ledger and the MUNIS detail. The Town is to record this adjustment in the current year. Additionally, as a result of our cutoff procedures, we noted the original, approved copy of subsequent tax takings was not available for our review. Based upon our inquiry, an exact copy of this report could not be re-generated; however, the Town Collector was able to reconcile the questioned amounts.

We continue to recommend tax title detail be reconciled on a timely basis. We continue to recommend the additional detailed computerized (Excel) spreadsheet continue to be maintained until treasury personnel have identified any potential errors with the MUNIS system. We recommend reconciliations should be performed immediately upon "takings" being performed, to insure the validity of transactions being posted. Furthermore, personnel should be reminded of the importance of maintaining all original documents on file.

### **Accounts receivable reconciliation with the Deputy Collector**

Last year, as 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. As of June 30, 2010, this reconciliation was not completed. We have been informed by the Town that this reconciliation process is currently in-process and the magnitude of the variances between the Deputy Collector's records and the Town's are being evaluated.

We generally recommend a formalized reconciliation with the Deputy Collector be performed bi-annually. Once the current process has been completed, variances identified, and appropriate corrective action determined, a routine process should be more easily implemented to maintain and reconcile current activity.

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

We are required to inform the Town of a new reporting standard which will significantly change the Town's financial reporting.

The Governmental Accounting Standards Board (GASB) has issued a new financial reporting standard which will be effective for the Town's fiscal year ending June 30, 2011. Under this new standard, the GASB has significantly changed definitions, classifications and reporting models for fund balances of governmental entities. The statement's objective is to provide users more useful and understandable information of the entity. The statement's new, more clearly defined categories focus in more detail on the nature, extent of any constraints and intended uses of the government's fund balances. This may require additional documentation and analysis by the Town to categorize current fund balances within intended uses and constraints. We recommend the Town begin to become familiar with the statement as the effective implementation date draws near. We are available for assistance as may be necessary.

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

During our current year audit, we noted the posting of abatements was being performed by the assessor's office personnel, as abatements were approved by the Board of Assessors. We were informed that the actual "posting" to a taxpayer's account within the Collector's account detail and to the general ledger receivable balances within the computerized accounting system occurs directly at this time. Pursuant to MGL, it is the Board of Assessor's responsibility to approve abatements. The Collector is responsible for maintaining the detail associated with outstanding balances committed. Accordingly, we recommend the Town evaluate the implementation of additional controls (electronic or procedural) which provide more segregation within these statutory duties.

### **Maintenance of change orders**

During our current year audit, we noted two instances of change orders relating to water capital projects which were not on file in the Town Accountant's office. MGL requires all contracts and change orders to be on file and approved as to available appropriation by the Town Accountant. We were informed by Town personnel that the Town is currently reviewing, with Town counsel, certain procurement issues, inclusive of signatory authority binding the Town in contractual relationships.

### **Internal controls, formalized policies and procedures**

As previously stated, current accounting and auditing standards have significantly reaffirmed management responsibility for establishing and maintaining effective internal controls surrounding financial reporting, as well as evaluating an entity's risks, including fraud related risks. It is more important now than ever before that personnel insure that policies and procedures of the Town (i.e. procurement, segregation of duties, cash receipts, disbursements, etc) be followed. During our current year audit, we reviewed certain procedures surrounding the receipt and recording of fire department permits at the departmental level. Based upon these procedures, we make the following comments and recommendations:

- As appropriate, consider enhancing the timeliness of departmental turnover of permit fees received by centralizing the receipt of permit fees with the Administrative Assistant rather than the Deputy Fire Chief who actually issues the permit. As fees are paid associated paperwork (i.e. application, etc) can be "date stamped" as paid; funds can be turned over via the "departmental turnover process" more quickly. The paperwork can be forwarded to appropriate personnel for inspection and subsequent approval. This also enhances the segregation of duties between the receipt and permit approval functions.
- Consider enhancing internal spreadsheets (log activity sheets), to more clearly define certain characteristics of the activity (i.e. payment date, permit issue date, etc). Additionally, we recommend additional columns be added to account for the actual fees paid, and creating a "total by type." This will not only enhance the timeliness of internal reporting, but assist in the reconciliation of departmental activity with the Town Accountant and Town Treasurer.
- Consider revising the spreadsheet utilized for monitoring "master box alarm" fees to reflect actual amounts billed and receivable balances accordingly. Additional consideration should be made to evaluate eliminating the use of complete manual logs as appropriate, and consider utilizing printouts from the Access software with additional notations as may deemed to be necessary (i.e., check number, etc).
- Ensure all fees are clearly documented, (including return for failed inspection) on the fees schedule. We recommend all fees be reviewed and approved annually.

All departments of the Town should continually evaluate internal departmental procedures and recordkeeping to insure such documentation not only provides a clear "paper trail" for all transactions, but also provides timely and meaningful information to the department itself. Additionally, such records can be utilized in an efficient manner to reconcile with the centralized accounting records maintained at Town hall.



**Internal controls, formalized policies and procedures (continued)**

Furthermore, in regard to departmental documentation of fees, the Government Finance Officers Association (GFOA) recommends municipalities maintain a centralized record of all fees being charged by the municipality. Additionally, the GFOA as well as the DOR recommend that the municipality maintain specific documentation as to the practices of calculation and administration of fees. This is important, because under this guidance, user fees and charges are designed to be *“for a particular benefit for the individual paying”*, and should be *“designed to recover all or part of the cost of providing the service”*. Communities are cautioned accordingly under this guidance to insure fees are not an *“additional tax”*. We recommend the Town consider review of appropriate fees structure town-wide in accordance with GFOA and DOR guidance accordingly. We continue to recommend departmental reviews be an integral component of a centralized, routine periodic “risk assessment.

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