

TOWN OF PLYMOUTH, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2009



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To the Honorable Board of Selectmen
Town of Plymouth, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Plymouth as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, 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 an opinion on the Town's 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 matters that are opportunities for strengthening internal controls and enhancing operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

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

March 26, 2010

TOWN OF PLYMOUTH, MASSACHUSETTS

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JUNE 30, 2009

TABLE OF CONTENTS

	Page
<i>PRIOR YEAR COMMENTS - RESOLVED</i>	1
Significant Deficiency	2
Fixed Assets	2
Chapter 90 Special Revenue Fund	2
Plymouth Growth and Development Corporation Component Unit (PGDC).....	2
Plymouth Regional Economic Development Foundation, Inc (PREDF).....	2
Accounting For Enterprise Fund Capital Projects	2
<i>PRIOR YEAR COMMENTS - UNRESOLVED</i>	3
Abandoned Property.....	4
Special Revenue Fund Analysis.....	5
Student Activity Funds.....	5
School Department Compensated Absences	6
Develop Written Disaster Recovery Procedures.....	6
Fraud Risk Assessment.....	7
Formal Accounting Policies and Procedures Handbook	8
Real Estate Receivables	8
Tax Foreclosures.....	9
Potential Component Units (PCU).....	9
Deposit and Investment Policy	10
Withholding Accounts	10
<i>CURRENT YEAR COMMENTS</i>	11
Other Post-Employment Benefit Actuarials	12
Government Accounting Standards Board (GASB) Statement #54.....	12

PRIOR YEAR COMMENTS - RESOLVED

The following comments were resolved during the current fiscal year. Please see the June 30, 2008 Management Letter for the complete comments.

SIGNIFICANT DEFICIENCY

FIXED ASSETS

CHAPTER 90 SPECIAL REVENUE FUND

PLYMOUTH GROWTH AND DEVELOPMENT CORPORATION COMPONENT UNIT (PGDC)

PLYMOUTH REGIONAL ECONOMIC DEVELOPMENT FOUNDATION, INC (PREDF)

ACCOUNTING FOR ENTERPRISE FUND CAPITAL PROJECTS

PRIOR YEAR COMMENTS - UNRESOLVED

ABANDONED PROPERTY

Prior Comment

Checks that remain outstanding for a period in excess of one year should be removed from the outstanding check listing and recorded in an account commonly referred to as tailings. During fiscal year 2004 the Treasurer's Office implemented procedures to track at the detail level all checks being put into tailings and has been scanning the outstanding check listing every 90 days.

However, the Treasurer's Office cannot easily produce this detailed information for checks prior to the current fiscal year and also the schedule developed does not provide a snapshot at any given time of the items within the tailing account. The current schedule tracks the activity of the tailings account more so on a revolving basis rather than keeping track of just the population of checks that are accounted for within the tailings account by name, check number, amount and date issued.

The lack of procedures related to tailings is a deficiency in internal control and can have an adverse effect on fund balance and free cash.

Recommendation

We recommend that the current schedule being utilized by the Treasurer's Office be enhanced to provide a detailed listing by name, check number, amount and date issued for all items maintained as tailings.

We recommend that the Treasurer follow the Massachusetts Abandoned Property Laws to bring the unclaimed items back into fund balance.

We also recommend that the Town Accountant and Town Treasurer reconcile tailings on a quarterly basis.

Action Taken

The Treasurers Office has been reconciling current activity to the abandoned property account and recording all pertinent information, however there is still an unreconciled beginning balance which the Town should implement a plan to account for and remove these amounts from the abandoned property account.

Current Status - Partially Resolved

SPECIAL REVENUE FUND ANALYSIS

Prior Comment

The Special Revenue Funds had several accounts that had no fiscal year 2004 activity and others that were in a deficit balance as of June 30, 2004. The periodic monitoring of account balances and activity is a procedure that strengthens internal controls. These situations suggest that the account has been closed out, posting errors remain uncorrected or the accounts were overspent. Continuing to carry forward on the ledgers accounts that are dormant complicates the reconciliation process. The fundamental premise on how Special Revenue Funds operate requires that they are self-supporting. Expenditures can only be approved if there are funds available. The fact that several accounts are in a deficit position indicates that there is a breakdown in internal control in approving expenditures.

Recommendation

We recommend that the Town Accountant's Office and the respective grant managers investigate the status of all dormant accounts. If there are funds remaining and the purpose of the account has been satisfied then the Town should either return unspent grant funds or vote to use the funds for other purposes. The Town must fund permanent deficits in any account.

Action Taken

The Finance Director has been working to clean up the Special Revenue Funds. Numerous corrections were made for the year ended June 30, 2009, however there are still some accounts that need to be corrected.

Current Status – Partially Resolved

STUDENT ACTIVITY FUNDS

Prior Comment

The Treasurer's Office and the Town Accountant's Office periodically reconcile the Student Activity accounts. Adjustments are made on a semi-annual basis to transfer funds from the Student Activity Savings account to the depository account to fund replenishments. However, in order to properly reflect the cash in the Student Activity accounts, this process must be done on a quarterly basis.

Recommendation

We recommend that the Treasurer's Office reconcile the Student Activity bank accounts at least quarterly to the general ledger and transfer the necessary funds to cover replenishments and properly state the Student Activity cash balances.

Action Taken

With implementation of the new cashbook and accounting system, separate bank and general ledger accounts have been set up for each school to aid in the reconciliation process. However, reconciliations were not performed during fiscal 2009.

Current Status – Unresolved

SCHOOL DEPARTMENT COMPENSATED ABSENCES

Prior Comment

The School Department's system of determining and reporting the available sick and vacation balances to the Town Accountant's office for the preparation of the compensated absence accrual is inefficient. The School Department does not maintain an automated perpetual balance of each school department employee's sick and vacation balance. Therefore, the calculation of this accrual at fiscal year-end (and at any time during the year) is time consuming and holds up the preparation of the fiscal year-end basic financial statements.

These balances are not only essential in the preparation of the Town's basic financials statements, but they are essential in attendance control.

Recommendation

We recommend the School Department develop an automated system or purchase one of the of the shelf programs capable of maintaining the sick and vacation balances of all school employees. This system should record the available sick and vacation balances for each employee and should include the daily wage rates and the buy-back allowances as well.

Action Taken

No action was taken to resolve this comment during fiscal year 2009.

Current Status – Unresolved

DEVELOP WRITTEN DISASTER RECOVERY PROCEDURES

Prior Comment

The Town does not have well-defined, written disaster recovery procedures. The time to make contingency plans is before disaster strikes, so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing IT facilities.

Recommendation

We recommend that management develop a disaster recovery plan that includes, but is not limited to, the following matters:

1. Location of, and access to, off-site storage.
2. A listing of all data files that would have to be obtained from the off-site storage location.
3. Identification of a backup location (name and telephone number) with similar or compatible equipment for emergency processing. (Management should make arrangements for such backup with another organization, a computer vendor, or a service center. The agreement should be in writing.)
4. Responsibilities of various personnel in an emergency.
5. Priority of critical applications and reporting requirements during the emergency period.

Action Taken

The Town has procedures in place to backup critical data. The Town has appropriated the funds and is in the planning phase of developing a comprehensive written disaster recovery program.

Current Status – Partially Resolved

FRAUD RISK ASSESSMENT

Prior Comment

The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Town perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Town's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the Town that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Town, its environment, and its processes. The fraud risk assessment process should consider the Town's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- What individuals have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- What assets of the Town are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.

Recommendation

We recommend that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation.

Action Taken

The Town has not conducted a fraud risk assessment of critical areas.

Current Status – Unresolved

FORMAL ACCOUNTING POLICIES AND PROCEDURES HANDBOOK

Prior Comment

We noted that there are limited written policies and procedures for key administrative and financial functions of the Town. Because of the fact that there is a limited number of staff supporting key positions, a formal manual that identifies and documents key areas of administration and operations would reduce the risk to the Town in the event that personnel have extended absences.

Recommendation

We recommend that the Town document all key managerial functions in a manual that includes, among other items, 1) job descriptions; 2) daily, monthly, and yearly work procedures; and 3) other specific information relative to the function being documented.

Action Taken

The Town implemented a new general ledger package during the fiscal year and has compiled documentation for various policies and procedures, however, a formal document has not been established.

Current Status – Unresolved

REAL ESTATE RECEIVABLES

Prior Comment

Through review of the real estate receivable balances we noted that tax years 2002 through 2006 are reporting credit balances. Through review of the detail we noted that there are approximately \$382,000 of credits that either represent posting errors or actual refunds due to taxpayers. As a result of the credit balances the total real estate receivables are understated. An adjusting entry was recorded for financial statement purposes.

Recommendation

We recommend that the Collector's Office review the detailed records for the years in question and determine if either a correcting entry or refunds are due. We also recommend that a policy be developed that allows for periodic review and more timely issuance of refunds due.

Action Taken – The Town has been reviewing the detailed records to determine if correcting entries or refunds are required. This majority of the credit balances have been addressed, however, the process has not yet been completed.

Current Status – Partially Resolved

TAX FORECLOSURES

Prior Comment

Through review of the detailed listing of tax foreclosures we noted that the beginning balance of approximately \$1.1 million is unsubstantiated. This balance has been carried for a number of fiscal years. Although there would be no fund balance effect due to the fact that the balance is fully deferred, an inaccurate balance may negatively effect management decisions in the future.

Recommendation

We recommend that the Collector's Office research the beginning balance to determine if the balance can be substantiated or if an adjustment is required.

Action Taken

No action was taken to resolve the unsubstantiated balance during fiscal year 2009.

Current Status – Unresolved

POTENTIAL COMPONENT UNITS (PCU)

Comment

The Town does not have procedures in place to evaluate whether organizations established to assist the Town in various capacities are to be included as component units of the Town. We inquired with Management about the existence of any additional PCU's and they were not aware of any. During our review of the Secretary of State's website for information regarding the other component units, we found Plymouth Education Foundation, Inc was established on December 5, 2008. This would be considered a PCU and should be evaluated by the Town to determine if it is a component unit. The Town should be aware of all organizations that are established to benefit the Town of Plymouth and should contact these organizations, review their tax filings and financial statements to ensure that all component units are included in the Towns financial statements.

Recommendation

We recommend that the Town research the Plymouth Education Foundation, Inc and all other foundations or non-profit corporations that have been setup to benefit the Town directly or indirectly determine if they should be included as a component unit of the Town.

Action Taken

The Town determined that the Plymouth Education Foundation, Inc does not meet the criteria for inclusion as a component unit of the Town. The Town has not established procedures to evaluate and monitor potential component units.

Current Status – Partially Resolved

DEPOSIT AND INVESTMENT POLICY

Comment

GASB Statement 40 requires financial statement disclosure of key policies affecting the management of cash deposits and other long term investments of the Town. Current disclosures indicate that there are no specific policies in place to ensure that deposits and investments are managed prudently or that such items are not subject to extraordinary risk.

Recommendation

We recommend that the Treasurer adopt a deposit and investment policy that addresses key areas of the GASB Statement 40. Among other items, the policy should address collateralization of uninsured cash deposits and limits placed on the ability to invest in certain debt or equity issuers.

Action Taken

No action was taken to resolve this comment during fiscal year 2009.

Current Status – Unresolved

WITHHOLDING ACCOUNTS

Prior Comment

The payroll withholding liability accounts do not appear to be reconciled on a monthly or quarterly basis. The balance in each withholding liability account should represent amounts withheld from employees but not yet paid out. This is usually one week to one month worth of withholding, depending on the type of withholding. These accounts should be reconciled on a regular basis to that ensure all withholdings are being properly paid out and properly charged to the withholding account. As of June 30, 2008 the payroll withholding accounts are reporting an overall debit balance of approximately \$7,500.

Recommendation

We recommend that the procedures be implemented to ensure that correct amounts are paid from the withholding accounts and that the accounts are reconciled in a timely manner.

Action Taken

No action was taken to resolve this comment during fiscal year 2009.

Current Status – Unresolved

CURRENT YEAR COMMENTS

OTHER POSTEMPLOYMENT BENEFIT ACTUARIAL VALUATION

Comment

Now that the Town has met the requirements for implementation of GASB Statement #45, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, it is time to acknowledge the requirements necessary to stay in compliance with the GASB and obtain the information necessary to complete the Town's annual audit.

For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more, or at least triennially for plans with total membership of fewer than 200.

For the Town of Plymouth, this means that an updated actuarial valuation will have to be obtained in order for the Town to remain compliant with GASB Statement #45, for fiscal years of 2010 and 2011. The original July 1, 2006 valuation was only valid for the fiscal years 2008 and 2009 audits.

Recommendation

We recommend that the Town work with their actuarial firm to assure that information needed for the next valuation report is provided in ample time for the fiscal year 2010 audit.

GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) STATEMENT #54

Comment

In February 2009, the GASB issued Statement #54, Fund Balance Reporting and Government Fund Type Definitions, which is required to be implemented in fiscal year 2011. 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 by clarifying 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 is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. 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.

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are 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 is required.

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

The definitions of the general fund, special revenue fund types, capital projects fund types, and permanent fund types 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.

Recommendation

As it appears that this GASB Statement will significantly impact the fund balance classifications presently reported, we recommend that management begin to study and evaluate these changes for financial statement reporting and disclosure purposes, and to formulate plans to be used in explaining these changes to interested parties within the Town and to the external users of the Town's financial statements.