

TOWN OF PLYMOUTH, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2011



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To the Honorable Board of Selectmen
Town of Plymouth, Massachusetts

We have audited 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, Massachusetts (Town), for the year ended June 30, 2011 (except for the Plymouth Contributory Retirement System and the Plymouth Growth & Development Corporation which are as of and for the year ended December 31, 2010) and have issued our report thereon dated January 23, 2012. Our opinions on the financial statements and this report, insofar as they relate to the Plymouth Growth & Development Corporation, are based solely on the report of other auditors. In planning and performing our audit of the basic 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, Massachusetts, as of and for the fiscal year ended June 30, 2011 (except for the Plymouth Contributory Retirement System and the Plymouth Growth & Development Corporation which are as of and for the year ended December 31, 2010), 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 our opinions 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.

However, during our audit we became aware of several other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning other matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Town personnel, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management of the Town of Plymouth, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties.

Powers & Sullivan, LLC

January 23, 2012

TOWN OF PLYMOUTH, MASSACHUSETTS

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PRIOR YEAR COMMENTS - RESOLVED

The following comments were resolved during the current fiscal year. Please see the June 30, 2010 Management Letter for the complete comments.

ABANDONED PROPERTY

DEVELOP WRITTEN DISASTER RECOVERY PROCEDURES

DEPOSIT AND INVESTMENT POLICY

RECONCILIATION OF RECEIVABLES

DPW CUSTODIAL SPECIAL DETAILS ACCOUNT

OTHER POSTEMPLOYMENT BENEFIT ACTUARIAL VALUATION – ENTERPRISE FUNDS

PRIOR YEAR COMMENTS - UNRESOLVED

SPECIAL REVENUE FUND ANALYSIS

Prior Comment

Since fiscal year 2004, there have been Special Revenue Funds that had little or no activity and others that were in a deficit balance. The periodic monitoring of account balances and activity is a procedure that strengthens internal controls. These situations suggest that accounts have been closed out, posting errors remain uncorrected or accounts were overspent. Continuing to carry forward general ledger 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 recommended 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.

Current Status – *Partially Resolved*. The majority of these funds have been resolved and the Finance Director is in the process of investigating the remaining accounts that have fund balance deficits that remain since the conversion to the new general ledger software.

Management Response

The Finance Department is in the process of implementing procedures to resolve this comment in Fiscal 2013.

STUDENT ACTIVITY FUNDS

Prior Comment

Reconciliation procedures are a primary internal control in relation to safeguarding an entity's assets. With this in mind, we noted that there are no formal reconciliation procedures of the School's student activity summary/detail ledger to the bank accounts maintained by the Principals' and the Town Treasurer. The sum total of the checking account balance plus the agency account on the Town's general ledger should equal the detail balances maintained by the School Department.

In addition, we noted the following matters as a result of a separate audit of the student activities of the Plymouth North and Plymouth South high schools dated June 29, 2010 and a follow up review completed on August 18, 2011:

- A number of Student Activities which are governed by other laws and therefore should not be operated as Student Activities.
- The schools were not using a software package that would allow them to easily share information as well as generate useful reports for reconciling the activities.
- The segregation of duties could be improved.
- Funds from inactive student activities, including old graduated classes, are being maintained by the school.
- Old outstanding checks are being carried as reconciling items on the checking account reconciliations.
- Bank deposits are not always occurring on a consistent basis.

Recommendation

We recommended that procedures be implemented to reconcile, on a monthly basis, the balances reported for each activity from the school's ledgers to the principal's checking accounts, the student activity savings accounts, and to the Town's general ledger.

In addition, we recommended the implementation of all other recommendations remaining from the follow up to the separate report dated August 18, 2011.

Current Status – *Partially Resolved*. The School has been working on correcting and implementing the deficiencies noted above. The School Department feels this comment will be resolved during fiscal year 2012.

Management Response

The District has reconciled the Rockland Trust Student Activity Agency Funds with the balances reported in MUNIS as of December 31, 2011. The District has implemented a reconciliation procedure, required timeline and standardized forms. This process is detailed in the Student Activity Manual (noted below) with a copy provided to Powers & Sullivan.

The District held training session with the administrative and secretarial staff that is responsible for overseeing the student activities accounts on Thursday, January 12th 9 am to 12 noon. The purpose of the meeting was to gage the current compliance with the recommendations of the initial audit of 2010, clarify any questions for the staff and to review to contents of the new Student Activities Manual. Staffs that are responsible for these accounts were provided a copy of the manual. All sections of the manual were explained in detail, forms were reviewed and reconciliation timelines were established. Agency accounts were reconciled with the MUNIS system and reports were provided to each secretary at this meeting with the direction that they must balance both the agency and checking accounts to their building accounts, complete the necessary forms and submit to the business office by the end of the month (February 29th). Going forward, the business office will provide the same MUNIS reports by the 5th of each month. Subsequently, each secretary is responsible to return a reconciliation packet, with the appropriate forms completed, by the end of that month.

QuickBooks training was provided to the same secretarial staff of February 8th, 8 am to 12 noon, at the Center Hill Preserve. This training was conducted by staff from Powers & Sullivan, who conducted the initial audit. The goal of this training was to make staff familiar with QuickBooks, and define the auditors and the District's expectations for these accounts.

The District has recently hired Sarah Reichert as the new Innovative Grant Secretary. We have added hours to her work, paid by local funds, where she will be assigned as the initial contact for student activities accounts for questions and assistance. Additionally, Sarah will be responsible to obtain monthly reports from each school that demonstrates audit compliance and reconciliation with the bank accounts.

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 delays 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 recommended the School Department develop an automated system or purchase a commercial program 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.

Current Status – *Partially Resolved*. The School is currently working with the Town to incorporate the compensated absences balances in the Town's new payroll system. They plan on tracking the attendance on the new system for fiscal year 2013.

Management Response

The current status (partially resolved) is accurate. The District continues to work with the Town to incorporate the compensated balances in the MUNIS payroll system. The School District's Human Resources staff is in the implementation process, which includes many days of training, with plans to begin to track attendance in MUNIS as of July 1, 2012. The initial plan is still correct, this date will allow for the MUNIS payroll system to track compensated balances for fiscal year 2013.

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

Current Status – *Unresolved*. The Town has approved funding for an internal audit position and addressing this comment will be a primary responsibility of this new position.

Management Response

The Finance Department is in the process of hiring an Internal Auditor and resolution of this comment will be one of their first priorities.

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 recommended 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.

Current Status – Partially Resolved. Various departments have started compiling the necessary documentation for the policies and procedures handbook. When hired, the new internal auditor will assist in the completion of the handbook.

Management Response

The Finance Department is in the process of hiring an Internal Auditor and resolution of this comment will be one of their first priorities.

CURRENT YEAR COMMENTS

BUDGETED ESTIMATED REVENUES AND OTHER FINANCING SOURCES

Comment

The Town does not utilize the revenue budget function of its automated accounting system. Through this function, the Town can enter the estimated revenues for the fiscal year into the accounting system and produce reports that will measure budget versus actual revenue performance. The accounting system serves as the official books and records of the Town and because of this management should be relying on the system to provide the necessary information to make managerial decisions. The Town monitors the departmental expenditures on a monthly basis through the use of the appropriation budget function, however, it is also important to monitor revenues during the fiscal year to detect and correct problems on a timely basis.

Strictly relying on analysis conducted outside of the accounting system increases the risk of error or misstatement in reports and management decisions.

Recommendation

We recommend that the Town utilize the revenue budget function of the automated accounting system and include revenue analysis reports as part of the monthly management reports produced from the system.

Management Response

The Town is utilizing the revenue budget feature for the fiscal year 2012 budget.