

TOWN OF PLYMOUTH, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2012



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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, 2012 (except for the Plymouth Contributory Retirement System and the Plymouth Growth & Development Corporation which are as of and for the year ended December 31, 2011) and have issued our report thereon dated March 7, 2013. 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, 2012 (except for the Plymouth Contributory Retirement System and the Plymouth Growth & Development Corporation which are as of and for the year ended December 31, 2011), 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

March 7, 2013

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, 2011 Management Letter for the complete comments.

BUDGETED ESTIMATED REVENUES AND OTHER FINANCING SOURCES

FORMAL ACCOUNTING POLICIES AND PROCEDURES HANDBOOK

PRIOR YEAR COMMENTS - UNRESOLVED

SPECIAL REVENUE FUND ANALYSIS

Prior Comment

In previous management letters we noted 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 continue to 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.

Current Status – *Partially Resolved*. The Finance Director has reviewed and resolved the majority of the accounts during fiscal years 2011 and 2012. The Finance Director will continue to review the accounts and expects to have the process completed in Fiscal 2013.

Management Response

There were two Department of Environmental Management special revenue funds in a deficit at year end. The accounts have been reconciled and the remaining deficit will be funded through free cash at the April 2013 Special Town Meeting.

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 were 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 continue to recommend 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 corrected and implemented the deficiencies noted above with the exception reconciling the checking and savings accounts to the agency funds in MUNIS. The School Department is currently working on procedures to reconcile the checking and savings with MUNIS and expects this comment will be resolved during fiscal year 2013.

Management Response

The School District has implemented previous recommendations and practices to facilitate the monthly process of balancing both the agency (savings) and checking accounts with QuickBooks. The final step in this process is to balance the agency (savings) account with the balances stated in MUNIS reports.

SCHOOL DEPARTMENT COMPENSATED ABSENCES

Prior Comment

In previous management letters we noted 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 continue to recommend 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 their compensated absences balances into the Towns new payroll system. The system has already been updated with a number of the bargaining units. The plan for completion is by the end of fiscal year 2013 with anticipation of tracking the attendance on the new system for fiscal year 2014.

Management Response

The current status (partially resolved) is accurate. The District continues to work with the Town to incorporate records from our current software program (EDRM-accruals) into the MUNIS human resources/payroll system. The School District's Human Resources staff is in the process of this sizable implementation. To date, the largest bargaining units (teachers and paraprofessionals) accruals and current activity are recorded in the MUNIS software. It is the School Department's plan to continue to work with the Town on the various groups to record their accruals and accumulators while simultaneously resolving issues that arose in the initial set up of the time entry system. This involves researching systems that would integrate with MUNIS and provide better employee absence management and increase data accuracy. Substantial improvement, if not full compliance, will be noted in the next year.

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 – Partially Resolved. The fraud risk assessment document is a work in process. The Town has hired an internal auditor and created a risk assessment checklist. The next step in the process is for the internal auditor to visit the various departments and assess the areas of perceived risk. Once areas that require strengthened internal controls are determined, the Town will need to develop a plan for implementing proper internal controls.

Management Response

The Town has developed an Assessment Risk Checklist which is being utilized by the Internal Auditor in the completion of departmental audits. In addition, the Internal Auditor will provide the checklist to all departments as part of an annual review of the departments control environment. The departments will be required to fill out the checklists and the responses will be used to plan subsequent audits and reviews of internal controls.

CURRENT YEAR COMMENTS

MASSACHUSETTS SCHOOL BUILDING AUTHORITY REIMBURSEMENTS

Current Comment

The Town entered into an agreement with the Massachusetts School Building Authority (MSBA) to receive financial assistance for the Plymouth North High School construction project. The Town is required to submit reimbursement requests, including supporting documentation, to the MSBA in order to receive reimbursements. During fiscal year 2012, the MSBA changed the level of detail necessary for reimbursement requests and as a result rejected recent reimbursement requests submitted. As of June 30, 2012, the Town is expecting approximately \$3.0 million of reimbursements pending the re-submission of the rejected requests within the current MSBA guidelines.

Procedures should be in place to properly report the project expenditures in the detail that the MSBA requires for reimbursement. The lack of procedures increases the possibility that the reimbursement requests will be permanently rejected or could result in the Town needing short term financing, increasing the total cost of the project for the Town.

Recommendation

We recommend that the Town accelerate the process to re-submit the rejected reimbursement requests in accordance with the current MSBA guidelines. We also recommend that the Town develop procedures to submit future reimbursement requests on a timely basis.

Management Response

Since the beginning of the project in 2009, there has been a process in place to submit reimbursement requests on a regular basis, however, the Town's submission from August 2012 was rejected because the MSBA implemented a new requirement that necessitated the re-evaluation and re-allocation of all previous invoices. In February 2013 all invoices outstanding from August through December of 2012 were submitted for reimbursement and the Town received the funds in March 2013. The Town will continue to submit invoices monthly for reimbursement in accordance with the MSBA guidelines.

SCHOOL CUSTODIAL DETAILS

Current Comment

The School Department rents out available school facilities, such as gymnasiums, to various groups. The School Department requires that a custodian be present for these activities. A standard fee is charged for this service which is based on the pay rate of the highest paid custodians. The fee is collected in advance of the event and the custodians are paid after services have been provided. The collection of fees and the payment to custodians are accounted for in an agency fund on the Town's general ledger.

As of June 30, 2012, the fund had an accumulated fund balance of \$51,000. The balance is the result of a discrepancy between the standard fee for custodial details and amounts paid to the custodians. Collections are based on the highest standard rate, but payments to custodians are based on their respective pay rates. This results in collections exceeding payments whenever custodians at lower pay rates are utilized.

Agency funds are used to account for funds that the government is holding for another entity in a custodial capacity and therefore should have not have an accumulated fund balance.

Recommendation

We recommend that the School Department establish a revolving fund to record the activity of the school custodial details. This will also assist the School Department in accessing these funds for allowable school expenditures.

Management Response

The School Department has no disagreement with this recommendation. From a practicable standpoint, this makes sense, to create a revolving account. A few points to consider prior to the implementation of this recommendation:

- While this section of MGL Chapter 44 notes paying of wages for full time employees must also include a charge for fringe benefits, the real use of this account will be for paying overtime or additional wages billed to outside groups who use the school facilities. The employees who are paid from this account are current full time employees who are paid the school budget appropriation.
- The School Department intends to request fund reauthorization on a yearly basis, thus the requirement that any remaining balance would revert to the general fund would not occur.
- Finally, our initial request for the total amount of receipts will be estimated higher than may be needed because the School department is in the process of editing our building use policy and increasing the fee structure. The end product will not be finalized until after Town Meeting, when the school Committee will vote on the recommended final version.

OLD OUTSTANDING MOTOR VEHICLE EXCISE TAX RECEIVABLES

Current Year Comment

Through review of the Town's general ledger we noted that the Collector's Office is carrying motor vehicle and boat excise tax receivables that date back to fiscal year 1994 and 1999, respectively. For receivables that cannot be liened, the likelihood of collection at this time has significantly diminished. This amount has been fully reserved for financial statement purposes.

Although there is still a chance to collect on accounts that have been flagged with the registry of motor vehicles, cleaning up the old balances will help to streamline the reconciliation process.

Recommendation

We recommend that the Collector's Office work with the necessary officials to determine which receivable balances are deemed uncollectible and, accordingly be written off. The Collector should continue to review and write off uncollectible receivables on an annual basis.

Management Response

The Treasurer/Collector's Office has reviewed the Deputy Tax Collectors records for the years 1974 through 1999 to identify individual names, bill numbers, dates and amounts due. This information will be matched to the Treasurer/Collector's records to find when the bills were issued, the demand dates, and the allowable reason to declare the bill uncollectible as required by statute. The information will be presented to the Board of Assessors for approval of abatements. The Town expects to complete this process by September 2013.

FUTURE GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS FOR PENSIONS AND OPEB

Current Comment

The GASB has issued new pronouncements that will significantly affect the accounting and reporting requirements for Pensions and Other Postemployment Benefits (OPEB). These new standards will start to phase in during fiscal year 2013 and will substantially impact your financial statements and will also affect the requirements for accumulating the necessary data to meet the reporting requirements.

The new standards that have been issued and their effective dates are as follows:

- The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015.

The GASB is expected to issue additional standards following #67 & #68 for Pensions, which will similarly affect accounting and financial reporting for OPEB Plans. The GASB is encouraging earlier application of these standards.

To briefly summarize these new standards –

- GASB #63 and GASB #65 will require reporting each of the financial position elements in a separate section in the statements of financial position. These elements are Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position; where assets + deferred inflows – liabilities – deferred outflows = net position. These new requirements will affect certain aspects of the financial statements currently and they will pave the way for the new reporting requirements of the new Pension and OPEB standards.
- GASB #67 and #68 will substantially change the reporting for pension liabilities and expenses. Changes in pension liability will be immediately recognized as pension expense or reported as deferred outflows/inflows of resources depending on the nature of the changes. Substantial changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes will be required. Current actuarial methods may continue to be used to determine funding amounts. Employers will report in their financial statements a net pension liability (asset) determined annually as of the fiscal year end. Net pension liability (asset) equals the total pension liability for the plan net of the plan net position. Pension liability is the actuarial present value of projected benefits attributed to past service, and plan net position is the accumulated plan assets net of any financial statement liabilities of the plan.

The Town should expect to record significant pension and OPEB liabilities in the future.

Recommendation

We recommend that management begin to study and evaluate these changes for financial statement reporting and disclosure purposes, and to formulate plans to meet with your actuaries and financial advisers as more information becomes available. You may want to consider how and when this information should be communicated to your constituents and other financial statement users.

Management Response

The Town is aware of the new GASB Statements and agrees with the recommendation to begin to evaluate and formulate a plan to comply with these changes for financial statement reporting and disclosure purposes