

TOWN OF PLYMOUTH, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2010



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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, 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 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 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 a combination of deficiencies, in internal control, such that 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 the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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.

January 24, 2011

TOWN OF PLYMOUTH, MASSACHUSETTS

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JUNE 30, 2010

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PRIOR YEAR COMMENTS - RESOLVED

The following comments were resolved during the current fiscal year. Please see the June 30, 2009 Management Letter for the complete comments.

REAL ESTATE RECEIVABLES

POTENTIAL COMPONENT UNITS (PCU)

WITHHOLDING ACCOUNTS

TAX FORECLOSURES

OTHER POSTEMPLOYMENT BENEFIT ACTUARIAL VALUATION

GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) STATEMENT #54

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. As of June 30, 2010 the Town had \$542,000 of tailings recorded by the Town Treasurer. The Town was unable to provide a detailed listing by name, check number, amount and date issued for all items maintained as tailings.

Of the tailings balance, approximately seventy-five percent relates to checks that are greater than three years old. Massachusetts abandoned property laws allow the Town to bring these unclaimed checks back into fund balance after satisfying the requirements of Massachusetts General Law, Chapter 200A, Section 9A.

Recommendation

We recommend that the Treasurer's Office identify all checks maintained as tailings. The listing should include the name, check number, amount, and date issued for all items. The Treasurer's office should update this regularly as checks are added to tailings or old checks are claimed.

We recommend that the Treasurer's Office review the listing annually to determine which checks are deemed to be abandoned property.

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

No progress was made on this comment during fiscal year 2010.

Current Status - Unresolved

SPECIAL REVENUE FUND ANALYSIS

Prior Comment

Since fiscal year 2004, there have been Special Revenue Funds accounts 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 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 addressed all of the special revenue accounts with the exception of two funds.

Current Status – Partially Resolved

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 Principal 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.

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:

- 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 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 recommend the implementation of all other recommendations from the separate report dated June 29, 2010.

Action Taken

During the current fiscal year no progress was made on establishing reconciliation procedures.

The Schools have started to implement the recommendations from the separate audit report and have contracted to have a separate audit of the student activities of the Plymouth South Middle School and the Plymouth Community Intermediate School during fiscal year 2011.

Current Status – *Partially resolved*

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

Subsequent to year end, the Town implemented a new payroll system which is integrated with the Town's general ledger. This system will automate the process for tracking and reporting sick and vacation balances for the School Department.

Current Status – *Partially resolved*

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 is in the process of developing a plan which addresses the points noted above.

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 is in the process of compiling documentation for the policies and procedures handbook, however, a formal document has not been established.

Current Status – Unresolved

DEPOSIT AND INVESTMENT POLICY

Prior 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

Subsequent to year end the Town finalized a deposit and investment policy that is expected to be formally approved by the Board of Selectmen in fiscal year 2011.

Current Status – Unresolved

CURRENT YEAR COMMENTS

RECONCILIATION OF RECEIVABLES

Comment

During our audit we noted that real estate and personal property receivables had not been reconciled until four months after the end of the fiscal year. Although there was not a significant overall variance between the general ledger and the detail records maintained by the collector, there were amounts that were posted incorrectly between years. Without monthly reconciliations, the possibility of errors and/or omissions occurring and not being detected in a timely manner increases.

Recommendation

We recommend that receivable balances be reconciled on a monthly basis. This reconciliation should occur in the subsequent month. The timely reconciliation of receivables will enable the Town to detect errors and discrepancies in a more effective and efficient manner, thereby strengthening the overall internal controls of the Town.

DPW CUSTODIAL SPECIAL DETAILS ACCOUNT

Comment

The Plymouth Memorial Hall is a Town owned facility that is managed by an independent vendor. The facility hosts various functions which require the use of a DPW custodial detail. These details are paid from the DPW Custodial Special Details account and the Town is reimbursed by the vendor. The reimbursements are also recorded to the Custodial Special Details account. Since this is an agency account the balance should be zero or have a deficit which is offset by a corresponding accounts receivable. At June 30, 2010 there was an accumulated deficit of approximately \$53,000 with no accounts receivable.

Recommendation

We recommend that the Town review the deficit to determine if the entire amount relates to reimbursements that have not been received. If there are amounts that are not related to reimbursements these should be charged to the employee's departmental overtime budget. The Town should establish policies to ensure prompt collection of any amounts that have not been received and should reconcile this account on at least a quarterly basis.

OTHER POSTEMPLOYMENT BENEFIT ACTUARIAL VALUATION – ENTERPRISE FUNDS

Comment

In fiscal year 2008, the Town implemented Governmental Accounting Standards Board (the GASB) Statement No. 45, which required disclosure and recognition of other postemployment benefit liabilities (OPEB). For financial reporting purposes, an actuarial valuation is required every two years.

Net OPEB obligations associated with enterprise funds, from which contributions are made, should be displayed as liabilities in the financial statements of those funds. An employer's net OPEB obligation is defined as the cumulative difference between the annual OPEB cost and the employer's contributions to the plan.

The Town's actuarial valuation report did not separately report the annual OPEB cost and the employer's contributions to the plan for the enterprise funds. This required management to obtain a secondary schedule from the actuary for financial reporting purposes.

Recommendation

We recommend that the next actuarial report include an actuarially determined net OPEB obligation for each applicable enterprise fund.