

TOWN OF PLYMOUTH, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2013

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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, 2013 (except for the Plymouth Contributory Retirement System and the Plymouth Growth & Development Corporation which are as of and for the year ended December 31, 2012) and have issued our report thereon dated March 27, 2014. 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, 2013 (except for the Plymouth Contributory Retirement System and the Plymouth Growth & Development Corporation which are as of and for the year ended December 31, 2012), 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 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 27, 2014

TOWN OF PLYMOUTH, MASSACHUSETTS

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JUNE 30, 2013

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PRIOR YEAR COMMENTS - RESOLVED

The following comments were resolved during the current fiscal year. Please see the June 30, 2012 Management Letter for the complete comments.

SPECIAL REVENUE FUND ANALYSIS

SCHOOL DEPARTMENT COMPENSATED ABSENCES

FRAUD RISK ASSESSMENT

MASSACHUSETTS SCHOOL BUILDING AUTHORITY REIMBURSEMENTS

PRIOR YEAR COMMENTS - UNRESOLVED

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.

Current Status – *Partially Resolved*. The School has corrected and implemented the deficiencies noted above with the exception of reconciling the savings accounts to the agency funds in MUNIS. The School Department is currently working on procedures to reconcile the savings accounts with MUNIS and expects this comment will be resolved during fiscal year 2014.

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.

SCHOOL CUSTODIAL DETAILS

Prior 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, 2013, the fund had an accumulated fund balance of \$26,000. 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 not have an accumulated fund balance.

Current Status – *Unresolved*. The School Department has created an article for the spring 2014 town meeting to establish a 53 E ½ revolving account for custodial detail funds and expects this comment will be resolved during fiscal year 2014.

Recommendation

We continue to 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.

OLD OUTSTANDING MOTOR VEHICLE EXCISE TAX RECEIVABLES

Prior 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 lien-ed, 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.

Current Status – *Unresolved*. The Town has not implemented the necessary procedures to resolve this comment.

Recommendation

We continue to 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.

CURRENT YEAR COMMENTS

PAYROLL WITHHOLDING ACCOUNTS

Current Comment

We noted that the payroll liability accounts are not formally 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 ensure all withholdings are being properly paid out and charged to the withholding account.

Once these accounts are fully reconciled and if it is determined that there are balances deemed to be erroneous, the closeout of these accounts could ultimately increase the Town's free cash.

Recommendation

We recommend that the Town implement procedures to reconcile the liability account balances on, at a minimum, a quarterly basis. We also recommend that the current balances be reconciled and a determination be made if adjustments are required.

TITLE V SEPTIC LOAN PROGRAM

Current Comment

The Office of Community Development administers Title V septic loans to eligible residents. Residents must meet income guidelines to participate in the program. An eligible applicant may receive a septic loan in the amount of the total cost of their project to be paid back over twenty years. The financing for these loans is provided by the Massachusetts Water Pollution Abatement Trust (MWPAT) and are structured so that the resident loan repayments cover the cost of the Town's debt service on these loans.

Once the particular project is completed, the loan amount and payment terms are provided to the Assessor's Office for billing purposes, however, this information is not consistently provided to the Accountant's Office to allow for the recording of the receivable and subsequent activity in the general ledger. This will complicate the reconciliation process between the Town Accountant and the Assessor's Office. We noted that the Title V loans are currently not being reconciled on a regular basis.

Recommendation

We recommend that the Town implement procedures to assure that the Town Accountant's Office is receiving the proper documentation regarding Title V loans in order to keep the general ledger up to date.

We also recommend that, at a minimum, the Title V loan balances be reconciled quarterly.

PAYROLL ACCOUNT RECONCILIATION

Current Comment

During our review of the Town's cash account reconciliations, we noted that the payroll account had a significant number of old reconciling items, some dating back to fiscal year 2007. This increases the time required to prepare the monthly bank reconciliation as well as making the reconciliation process more complex, thus leaving greater room for error.

Recommendation

We recommend that un-cleared reconciling items be investigated and removed from the bank reconciliation. In addition, procedures should be implemented to identify and resolve reconciling items on a monthly basis.

GENERAL LEDGER TO TREASURER CASH RECONCILIATION

Current Comment

The Town has reconciled cash between the general ledger and Treasurer's account balances as of fiscal year end. The reconciliation includes numerous reconciling items dating back as far as fiscal year 2010. The Town has identified the reconciling items and the corresponding adjustments, however, these adjustments have not been recorded. Subsequent to adjustment, the reconciliation process will be more efficient and any outstanding reconciling items will relate to current issues that should normally clear during the subsequent month.

Recommendation

We recommend that the Town record the necessary adjustments to the general ledger and/or Treasurer's records for the existing identified reconciling items. We also recommend implementing procedures to identify and record future reconciling adjustments in a timely manner.

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

Current Year 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 #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 #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.