

**TOWN OF CARVER, MASSACHUSETTS**  
**SUGGESTIONS FOR IMPROVEMENT IN ACCOUNTING**  
**PROCEDURES AND INTERNAL CONTROL**  
**JUNE 30, 2010**



# Malloy, Lynch, Bienvenue, LLP

*Certified Public Accountants & Advisors*

99 Longwater Circle, Suite 200, Norwell, MA 02061  
Telephone (781) 871-5850 Fax (781) 871-5840

9 Baystate Court, Brewster, MA 02631  
Telephone (508) 255-2240 Fax (508) 255-2351  
Internet: [www.mlbcpa.net](http://www.mlbcpa.net)

To the Honorable Board of Selectmen  
Town of Carver, Massachusetts  
Carver, Massachusetts

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of the Town of Carver, Massachusetts (the Town) 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 accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We are also submitting for your consideration comments and recommendations which are not considered to be significant deficiencies but are intended to improve operations and internal accounting control.

The comments and recommendations presented herewith in are intended to improve the system of internal accounting control or result in other operating efficiencies. The factual accuracy of our comments has been discussed with management to obtain their concurrence before the development of our recommendations for improvement. Matters commented on represent findings during the audit and have not been reviewed subsequent to March 11, 2011.

A management letter is critical by nature because its purpose is to identify areas where improvements can be made. Accordingly, we have not commented on many positive attributes of the Town's financial management systems. It is also important to understand that it is generally not practical to achieve ideal internal control in the complex governmental accounting environment.

We would like to commend management and other department personnel for their progress in implementing many recommendations on findings presented in previous years. Additionally, we would like to acknowledge the courtesy and assistance extended to us by Town personnel during our audit.

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

Very truly yours,

*Malloy, Lynch, Bienvenue LLP*

March 11, 2011

## **STATUS OF PRIOR YEAR COMMENTS AND SUGGESTIONS**

As part of our audit of the Town's financial statements for the year ended June 30, 2009, we had several comments and suggestions, issued in our report dated March 25, 2010. The Town has acted on some of these comments and suggestions, but additional attention is still needed on our ongoing comments concerning internal control over the cash reconciliation process.

### **Improve Timeliness of Cash Reconciliations and Tailings**

In fiscal year 2008, we recommended the Treasurer's office improve cash receipt procedures and the completion of bank reconciliations with the Town Accountant. We had noted some improvement in the completion and timeliness of inputting receipts and bank reconciliations in fiscal year 2009 and into 2010.

Although cash reconciliations through June 30, 2010 were completed in the fall of 2010, as part of our review of subsequent events we noted receipts and cash reconciliations for July, 2010 and subsequent had not been completed as of the date of this letter. Not performing these reconciliations on a timely basis represents a significant deficiency in internal control that we are required to report to you under current auditing standards.

After discussion with Town Staff regarding this issue, we understand there could be a number of factors causing a delay in completing these treasury functions. However, no matter the reason, we consider the basic function to be important in ensuring proper financial reporting and oversight is occurring.

We recommend the Town Treasurer and Town Management address this issue to ensure receipt postings and reconciliations are brought up to date as soon as possible. Ongoing, we recommend receipts be posted as close to real time as possible - no later than weekly. We recommend cash reconciliations be completed within 45 days of each month end.

### **Revolving Fund Deficits**

In our prior year audit, we noted the Town had deficits in several revolving funds. This year we again noted some revolving fund deficits, principally the athletic revolving funds. These deficits have been attributable to the timing of cash receipts and deposits. We continue to recommend the Town Accountant monitor the balance of these funds closely to ensure the deficit does not grow and is covered by subsequently collected receipts.

### **Improve Internal Control over the Billings and Collections of Retiree Health Insurance**

In prior years, we recommended the Town improve internal control over the billing and collection of retiree health insurance by issuing invoices to retirees and by segregating billing and collection duties. We understand these recommendations were considered, but no action has been taken yet. We continue to recommend the Town implement these suggestions.

### **Student Activity Funds**

In prior years, we recommended the Town implement administrative practices of student activity funds in accordance with Massachusetts General Law, Ch. 71, S. 47. During fiscal year 2009, we were engaged to complete a review of the Town's student activity funds and made several recommendations. Town and School management have implemented some improved procedures, but it continues to be an ongoing effort. Effective in fiscal year 2011, a new software system has been implemented to track all funds. We will continue to update the status of these improvements in future audits.

### **Reconciliation of Police Detail Receivable**

During prior year audits, we reviewed police details receivable recorded in the general ledger. Reconciliations of the underlying records maintained by the police department and the Town's financial records are not adequately performed. Effective for fiscal year 2011, the police department began tracking details via a software program and are working closely with the Town Accountant to reconcile to the amounts recorded by the Town.

### **Recording Departmental Receivable Activity**

Last year we noted activity and balances of certain receivables (state highway aid, ambulance, school construction projects, etc.) are not recorded on the Town's general ledger. We continue to recommend the Town Accountant be provided with the information necessary to record all financial transactions of the Town through the Town's general ledger as required by MGL Ch. 41 S. 57 and in accordance with UMAS manual. Reporting of these transactions is important, not only for financial reporting purposes, but also to improve internal control over these transactions and the internal control environment overall.

### **New auditing standards – "Risk Assessment"**

Last year in response to the "risk assessment standards" we recommended management consider establishing a committee of appropriate Town and School officials to periodically review, and document Town internal controls, and associated risks (including fraud) of the Town. These new standards reaffirm management's responsibility to continually take a "proactive approach" related thereto. We have been informed that the Town has begun documenting and formalizing various financial policies and procedures and we will continue to inform and assist the Town to ensure it meets the requirement of these recently issued standards.

### **Evaluate Sufficiency of Departmental Turnovers**

Last year during our review of cash receipts, we noted instances of departmental turnovers lacking sufficient detail to provide an adequate audit trail. We continue to recommend the Town require all departmental turnovers provide adequate description of the receipts remitted; this detail should include source, date of receipt, types of monies collected, and any other information that might be helpful in providing an efficient audit trail.

### **Improve Internal Control Procedures and Timeliness of School Department Receipts**

Last year we noted some instances of school department receipts untimely remitted to the Town. Town and school management has implemented informal receipt policy requiring all monies to be turned over daily. Management is in the process of developing a formal and written uniform policy to address this issue further.

### **Establish FTC "Red Flag" Security Documentation**

The Federal Trade Commission (FTC) issued new "Red Flag" rules that apply to all municipalities that have utility accounts such as water, sewer or electricity. Municipalities have until December 31, 2010, to have written programs to identify, detect, and respond to patterns, practices, or specific activities (referred to as red flags) that could indicate identity theft. Examples of red flags include alert notifications, or warning from a consumer reporting agency, forged or inconsistent customer identifying information, as well as many other examples described in the FTC rules. We recommend the Town establish the Red Flag documentation by the December 31, 2010 deadline to assure compliance with this new Federal requirement.

We continue to recommend the Town establish the Red Flag documentation by the December 31, 2010 deadline to assure compliance with this new Federal requirement.

## **NEW COMMENTS AND SUGGESTIONS**

As a result of our current year audit, we make the following comments and suggestions:

### **Custody of contracts and surety bonds**

MGL Chapter 41, Section 57 provides that "The town accountant shall have custody of all contracts of the town, shall keep a register of the sureties on all bonds of indemnity given to the town". During our audit, we noted the Town Accountant does not have custody of school contracts as required by this law. We recommend all Town departments provide copies of all contracts to the Town Accountant, and that the Town Accountant require copies of contracts before approving payment of invoices on vendor warrants.

### **Implementation of formal investment policy**

GASB 40 "Deposit and Investment Risk Disclosures" requires detailed disclosures for the cash deposits and investments in the Town's financial statements. Included in this requirement is disclosure of the Town's investment policies regarding the various risks associated with cash deposits and investments as specified in GASB 40, custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

We recommend the management of the Town become familiar with the requirements of GASB 40, and consider adopting formalized policies and procedures in relation to the specifics of the standard. We understand the Town is currently in the process of developing a formal investment policy.

### **Massachusetts data security law**

The Commonwealth of Massachusetts has issued new regulations designed to address issues of identity theft. The Commonwealth's data security law requires entities to develop more comprehensive measures to protect and store personal information both in the paper and electronic environments. The state Office of Consumer Affairs and Business Regulation (OCABR) has extended the deadline for Massachusetts employers to comply with the new law until March 1, 2010. While currently not applicable to municipalities, we recommend the Town consider the value of implementing such policies and procedures.

\* \* \* \* \*