

TOWN OF CARVER, MASSACHUSETTS
SUGGESTIONS FOR IMPROVEMENT IN ACCOUNTING
PROCEDURES AND INTERNAL CONTROL
JUNE 30, 2009



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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, 2009, 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 25, 2010.

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.

Very truly yours,

March 25, 2010

STATUS OF PRIOR YEAR COMMENTS AND SUGGESTIONS

As part of our audit of the Town's financial statements for the year ended June 30, 2008, we had several comments and suggestions, issued in our report dated June 22, 2009. 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 prior year audits, we recommended the Treasurer improve the timeliness of reporting cash receipts and reconciliations through the Town's financial management system. We also recommended the Town implement procedures to handle outstanding checks (tailings) in accordance with guidelines set forth by the Department of Revenue. We noted significant improvements surrounding the timeliness of cash receipts and reconciliation during the year under audit. The Town has also begun to implement procedures to handle outstanding checks in the near future.

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 are currently implementing improved procedures. We will update the status of these improvements in future audits.

Outstanding Payroll Checks

Last year we noted approximately \$17,000 of outstanding checks on the reconciliation of the inactive payroll bank account. Upon request, a detailed list of outstanding checks was not available for review. During fiscal year 2009, an adjustment was made to cash to eliminate the unknown items outstanding and the account activity, if any, is monitored monthly.

Reconciliation of Police Detail Receivable

During our audit in prior years, 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. Although the Town Accountant has repeatedly attempted to address this issue, no improvement has been made. We continue to recommend the Town implement procedures to reconcile the underlying records maintained by the police department to the Town's financial records.

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.

NEW COMMENTS AND SUGGESTIONS

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

Evaluate Sufficiency of Departmental Turnovers

During our review of cash receipts, we noted instances of departmental turnovers lacking sufficient detail to provide an audit trail. We 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 Monitoring of Accrued Benefit Time

During the current year, the Inspector General performed an investigation of inappropriate use of vacation time by the Council on Aging director. The investigation concluded that the director owes the Town approximately \$17,000 in vacation time used in 2009 that he was not entitled to.

The Town has implemented additional procedures and oversight to mitigate the risks associated with the misuse of vacation time in future periods. We understand that the Town has reviewed all unused vacation time for employees and centralized all records. The Town’s payroll service will be utilized to track unused vacation time going forward.

Improve Internal Control Procedures and Timeliness of School Department Receipts

In the year under audit, it came to our attention that various school department receipts are not being remitted to the Town timely. We noted some instances where checks were held for more than two months before being turned over to the Town. It is important to remit all receipts timely to ensure financial records are accurately stated. We recommend the school department develop a uniform policy for receipts to address these issues in future periods.

Revolving Fund Deficits

This year we noted several revolving fund deficits. Per review with Town personnel, accounting for these funds are maintained at the departmental level, however, no reconciliation to the general ledger is being maintained. We recommend the all revolving fund activity be reconciled to the Town’s financial records to ensure accurate reporting and to monitor potential deficits in future periods.

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 June 1, 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 June 1, 2010 deadline to assure compliance with this new Federal requirement.

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