

TOWN OF CARVER, MASSACHUSETTS
SUGGESTIONS FOR IMPROVEMENT IN ACCOUNTING
PROCEDURES AND INTERNAL CONTROL
JUNE 30, 2011



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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, 2011, 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 19, 2012.

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

Malloy, Lynch, Bienvenue, LLP
March 19, 2012

STATUS OF PRIOR YEAR COMMENTS AND SUGGESTIONS

As part of our audit of the Town's financial statements for the year ended June 30, 2010, we had several comments and suggestions, issued in our report dated March 11, 2011. 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

As noted in prior years, we recommend the Treasurer's office improve cash receipt procedures and the completion of bank reconciliations with the Town Accountant. In the year under audit, cash reconciliations and receipts were posted several months subsequent to year-end. As of the date of this letter, cash reconciliations for July 2011 and subsequent have not been completed. Also, cash receipts postings were more than one month in arrears. Not performing these reconciliations and posting receipts on a timely basis represents a significant deficiency in internal control that we are required to report to you under current auditing standards.

In addition to the timing issues noted above, we noted the following cash deficiencies during fiscal year 2011:

- Upon request, several bank statements were unavailable for review
- Reconciliations for the payroll account are not adequately performed
- A formal process for re-issuing checks (via manual checks) is not in place to ensure original amounts are refunded
- Payments duplicated to the Massachusetts Teacher's Retirement System were not discovered for several months
- Proceeds and payments relating to bond anticipation notes were not timely communicated or formally approved on a warrant
- Investments are not recorded at fair market value
- Bank accounts not in the Town's custody are maintained in the Town's Tax ID number

We understand the Town Treasurer is currently implementing a new cashbook system and is obtaining outside assistance to bring reconciliations up to date.

Moving forward, we recommend receipts be posted as close to real time as possible - no later than weekly. We recommend cash reconciliations be completed within 30 days of each month end and all transactions be properly approved on a warrant.

Revolving Fund Deficits

In prior year audits, we noted several revolving fund deficits. It is our understanding that management has implemented procedures to monitor revolving fund activity to ensure deficits are covered by subsequently collected receipts; we noted minimal fund deficits in the current fiscal year.

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 was implemented to track all funds. Management intends to conduct a meeting with school personnel during fiscal 2012 to implement additional and revised procedures. We will continue to update the status of these improvements in future audits.

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.

Evaluate Sufficiency of Departmental Turnovers

Consistent with prior years, 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. We also recommend department supervisors acknowledge and approve all turnover prior to submission to the Treasurer's office.

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.

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, certain contracts were unavailable for review. We understand that the Town is currently working on developing a policy to address this issue. We continue to 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 continue to recommend 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.

NEW COMMENTS AND SUGGESTIONS

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

Accounting for transfers

At year end, net transfers did not reconcile to zero. Upon further review, it was noted that certain transfers were recorded against revenue or expense accounts, thus over/under stating these accounts. In accordance with Uniform Massachusetts Accounting System, all transfers should be reported separately as an other financing source or use. We recommend the Town implement procedures to review transfers to ensure they are properly recorded.

Gross up Intergovernmental proceeds and debt service expenditures

In fiscal 2011, the Massachusetts School Building Authority agreed to make a lump-sum payment of the remaining funds scheduled to be paid to the Town for the Carver Middle High School project. The Town utilized these funds to pay off outstanding bonds related to the project. The proceeds received and debt service expenditures were both recorded as “miscellaneous receipts,” thus netting the transaction. We recommend all transactions be recorded to the appropriate general ledger account to adequately reflect account balances.

Superintendent Approval of Warrants

During our review of school warrants, it came to our attention that the school superintendent does not sign the warrant. The Massachusetts Department of Revenue’s Division of Local Services recommends all expenses be approved by the Superintendent for approval prior to submission to the School Committee. We suggest the Superintendent approve all warrants to formally document this recommendation.

Grant Compliance Requirements – Special Education Cluster

In accordance with grant compliance requirements, the Town must maintain payroll certifications for staff charged to the Special Education Cluster. During our review of grant documentation, three payroll certifications were unavailable for review. We also noted that the Town’s “grant tracking sheets” included payroll charges related to a teacher’s leave of absence. After discussion with Town management, it was determined that it was not the Town’s intention to charge the leave of absence to the grant; the salary charges for the teacher’s replacement should have been charged here. We recommend the “grant tracking sheets” be revised to reflect this change in assignment. We also recommends payroll certifications be reviewed at year-end to ensure completion by all grant staff.

Proration of Health Insurance Premiums Between Employers

As part of the Municipal Relief Act passed in 2010 new procedures were authorized whereby employers now have the ability to prorate the cost of health insurance premiums paid to retirees between multiple employers. For example, under the former law, if the Town of Carver hired an employee who previously had 25 years of service in another town and that employee worked for 5 years for the Town of Carver then retired the Town of Carver was responsible for covering that retirees cost for the post employment health insurance benefit.

Under the Municipal Relief Act, a new Section 9A ½ was added to chapter 32B of the MGL and reads as follows:

Whenever a retired employee or beneficiary receives a healthcare premium contribution from a governmental unit in a case where a portion of the retiree’s creditable service is attributable to service in 1 or more other governmental units, the first governmental unit shall be reimbursed in full, in accordance with this paragraph, by the other governmental units for the portion of the premium contributions that corresponds to the percentage of the retiree’s creditable service that is attributable to each governmental unit. The other governmental units shall be charged based on their own contribution rate or the contribution rate of the first employer, whichever is lower.

The treasurer of the first governmental unit shall annually, on or before January 15, upon the certification of the board of the system from which the disbursements have been made, notify the treasurer of the other governmental unit of the amount of reimbursement due for the previous fiscal year and the treasurer of the other governmental unit shall immediately take all necessary steps to insure prompt payment of this amount. In default of any such payment, the first governmental unit may maintain an action of contract to recover the same, but there shall be no such reimbursement if the 2 systems involved are the state employees' retirement system and the teachers' retirement system.

These provisions apply only to employees who are members of retirement systems and who retire after January 1, 2011. Retirement boards will be providing information to governmental units and treasurers to verify the amounts of creditable service from various government units for post January 1, 2011 retirees.

We recommend Town management implement procedures to ensure that it can timely and properly assess other governmental units for prorated retiree health insurance costs, as well as verify costs prorated to it from other governments. MLB is considering developing web-based applications to assist governments in this regard and is available to assist you further if desired.

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