

TOWN OF BOURNE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2010



Certified Public Accountants

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To the Honorable Board of Selectmen
Town of Bourne, Massachusetts

In planning and performing our audit of the financial statements of the Town of Bourne, Massachusetts (Town) as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, 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 are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. A separate letter dated March 11, 2011 contains our communication of material weaknesses in the Town's internal control. This letter does not affect our report dated March 11, 2011, on the financial statements of the Town.

The Town's written responses to the matters identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

March 11, 2011

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Comments and Recommendations

Student Activity Funds

Comment

The Town maintains student activity funds for several of its schools. Massachusetts General Laws (MGL) Chapter 71, Section 47, which establishes various guidelines related to student activity funds, states the following:

“There shall be an annual audit of the student activity funds which shall be conducted in accordance with procedures as agreed upon between the school committee and the auditor based upon guidelines issued by the department of education.”

An annual audit or agreed upon procedures is not being performed on the Town’s student activity funds. Based upon the MGL requirement and the inherent risks associated with student activity funds, we believe that the performance of an audit or agreed-upon procedures on the Town’s student activity funds would be prudent.

Recommendation

We recommend the Town comply with the requirements of MGL Chapter 71, Section 47 by having an audit or agreed-upon procedures performed on their student activity funds.

Management’s Response

The school department will conduct an annual performance audit or agreed-upon procedures audit of all student activity accounts based upon MGL, Chapter 71, Section 47 or the guidelines issued by the department of elementary and secondary education.

Enterprise Funds

Comment

The Massachusetts Department of Revenue (DOR) issued an "Informational Guideline Release" (IGR 08-101) in April 2008 in which the DOR recommends that every community with an enterprise fund establish a written, internal policy regarding indirect cost allocation, to be reviewed annually. IGR 08-101 also recommends that local financial officials should understand and agree on what indirect costs are appropriated as part of the general fund operating budget and what percentage of these costs should be allocated to enterprise funds.

We believe it would be prudent for the Town to follow the DOR recommendations in IGR 08-101 for its enterprise funds.

Recommendation

We recommend that the Town implement the recommendations of the DOR as identified in IGR 08-101 by establishing a written, internal policy regarding indirect cost allocation, to be reviewed annually. In addition, as part of the annual budgeting process, Town officials should understand and agree on what indirect costs are appropriated as part of the general fund operating budget and what percentage of these costs should be allocated to the enterprise funds.

Management's Response

The Town has been allocating indirect costs to both of its enterprise funds based on a funding formula, which allocates charging the enterprise fund a percentage of actual costs related to the service. The Department of Revenue has been aware of the allocations the Town has used each year for its indirect cost charges. Indirect costs are made up of two different items. First, the enterprise fund is charged the benefited cost of the actual employees who work for the enterprise fund because all benefits are paid for by the general fund. Second, the enterprise fund is charged the cost to provide services and expenses directly related to the enterprise fund by those individuals. These expenses are paid for in the general fund and are calculated by estimating a percentage of the number of hours an individual spends to provide those services and expenses for the enterprise fund. Each year these costs are updated to reflect future budgeted costs. The Town will look to formalize these practices in writing.

Cashbook

Comment

In the prior year, we reported that the Treasurer maintains a manual cashbook to maintain the activity of the Town's various bank accounts. The use of a manual cashbook is inefficient and more susceptible to human error than automated programs.

The Treasurer has begun the process of fully automating the maintenance of the cashbook.

Recommendation

We recommend the Treasurer complete the automation of the cashbook during fiscal year 2011.

Management's Response

The funding for purchasing the cashbook software was approved at the October 2010 STM. The software has been purchased and installed in the Treasurers Office. The Town is currently implementing and using the cashbook software. March 2011 is the first month the new cashbook is in effect.

Financial Policies and Procedures

Comment

We believe that preparation of a formal policy and procedures manual would improve and standardize the Town's financial policies and procedures.

Without formalized written policies and procedures, the Town is inherently subject to everyday inconsistencies in its operations. It is also difficult to measure performance and efficiencies without a baseline. The number of such inconsistencies can be minimized by the written codification of policies and procedures and insistence on adherence to them.

Such a manual should include policies and procedures relative to all financial functions and processes, including, but not limited to, the following:

- Cash receipts
- Cash disbursements
 - Payroll
 - Vendor
- Procurement
- Grant administration
- Personnel (i.e., hiring, payroll and related changes, etc.)
- Month-end and year-end closing procedures

The manual should also clearly define the objectives, responsibilities and authorizations for all employees/job positions.

The use of written policies, procedures, and job descriptions in conjunction with specific assignment of responsibilities would increase supervisory personnel's effectiveness. Such written documents would decrease the time spent on supervision of clerical personnel and in attempts to define job responsibilities on each occasion of employee turnover.

Recommendation

The Finance Director has begun the process of developing financial policies and procedures for several financial processes. We recommend that management continue the development of the financial policies and procedures manual.

Management's Response

Management will continue the development of the financial policies and procedures.

Bank Accounts Using the Town's Tax Identification Number

Comment

We identified several bank accounts that are using the Town's tax identification number and are not authorized by the Treasurer or accounted for on the general ledger. Usually these accounts represent quasi-governmental organizations, such as parent teacher organizations, booster clubs, etc. The Town is potentially at risk if the bank accounts are unknowingly controlled by a Town department, whereby activity would occur outside the Town's internal controls and circumvent municipal finance laws. In addition, the Treasurer should have signature authority on all bank accounts maintained under Town's tax identification number and the activity related to the bank accounts should be recorded on the general ledger.

Recommendation

We have provided a list of the unauthorized bank accounts to the Treasurer/Collector. We recommend the Treasurer/Collector contact the related banks to begin the process of closing the unauthorized bank accounts.

Management's Response

The Treasurer has written a letter to the bank which allowed these outside organizations to use the Town's federal tax identification number illegally and informed them these organizations did not have permission to use the Town's federal tax identification number and those accounts need to be closed immediately.

New Accounting and Financial Reporting Requirements for Fund Balances

Comment

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and to clarify the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that will be made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with loans receivable. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

Governments will also be required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements will be required.

This Statement also provides guidance for classifying stabilization funds on the face of the balance sheet and requires disclosure of certain information about stabilization funds in the notes to the financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

Implementation of this statement will improve financial reporting by:

- Providing fund balance categories and classifications that will be more easily understood
- Eliminating the *reserved* component of fund balance in favor of a *restricted* classification to enhance the consistency between information reported in the government-wide statements and information reported in the governmental funds financial statements
- Requiring governments to classify amounts consistently, regardless of the fund type or column in which they are reported
- Providing disclosures to give users information necessary to understand the processes under which constraints are imposed upon the use of resources and how those constraints may be modified or eliminated
- Reducing uncertainty about which resources can or should be reported in the respective governmental fund types

Given the significance of fund balance amounts (both quantitatively and qualitatively), the fund balance reporting under the new standard will have a significant impact on the Town's financial statements.

The Town's required implementation date of GASB Statement No. 54 is fiscal year 2011.

Recommendation

We recommend that management familiarize itself with GASB Statement No. 54 to prepare for its implementation. We would be pleased to assist the Town with its preparation for implementing the new standards.

Management's Response

The Finance Director is aware of the requirements of GASB Statement No. 54 and will have the financial reports in compliance and implemented for fiscal year 2011.