

TOWN OF BOURNE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2011

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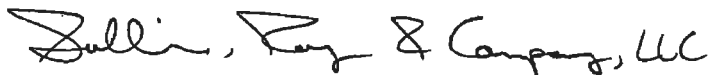
To the Honorable Board of Selectmen
Town of Bourne, Massachusetts

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, 2011, 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. This letter does not affect our report dated May 10, 2012, 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.

A handwritten signature in cursive script that reads "Sullivan, Rogers & Company, LLC".

May 10, 2012

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TABLE OF CONTENTS

	Page
Comments and Recommendations	1
Risk Assessment and Monitoring	1
General Ledger	3
Capital Assets	4
Student Activity Funds	5
Financial Policies and Procedures	6
Enterprise Funds	7
Bank Accounts Using the Town's Tax Identification Number	8

Comments and Recommendations

Risk Assessment and Monitoring

Comment

When internal controls are *initially* implemented, they are usually designed to adequately safeguard assets. However, over time, these controls can become ineffective due to changes in technology, operations, etc. In addition, changes in personnel and structure, as well as the addition of new programs and services, can add risks that previously did not exist. As a result, all municipalities must periodically perform a risk assessment to anticipate, identify, analyze and manage the risk of asset misappropriation. Risk assessment (which includes fraud risk assessment), is one element of internal control.

The risk assessment should be performed by management-level employees who have extensive knowledge of the Town's operations. Ordinarily, the management-level employees would conduct interviews or lead group discussions with personnel who have knowledge of the Town's operations, its environment, and its processes. The risk assessment process should consider the Town's vulnerability to misappropriation of assets. It should also address operations that involve heightened levels of risk. When conducting the assessment, the following questions should be considered:

- What assets are susceptible to misappropriation?
- What departments receive cash receipts?
- What departments have movable inventory?
- What operations are the most complex?
- How could assets be stolen?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could potential misappropriation of assets be concealed?
- What prior internal control issues could still continue to be problematic?

Once the areas vulnerable to risks have been identified, a review of the Town's systems, procedures, and existing controls related to these areas should be conducted. The Town should consider what additional controls (if any) need to be implemented to reduce risk.

After risk has been assessed, periodic monitoring of the identified risk areas must be performed in order to evaluate the controls that have been implemented to mitigate the risks. Since control-related policies and procedures tend to deteriorate over time, the monitoring process ensures that controls are fully operational and effective.

Recommendation

We recommend that management develop and implement a risk assessment program to periodically anticipate, identify, analyze, and manage the risk of asset misappropriation. The risk assessment program should be formally documented and become part of the Town's financial policies and procedures manual.

We recommend that management develop and implement a monitoring program to periodically evaluate the operational effectiveness of internal controls. The monitoring process should be documented in order to facilitate the evaluation of controls and to identify improvements that need to be made.

Management's Response

A risk assessment and monitoring policy has been written and will be brought forward for acceptance by the Board of Selectmen.

General Ledger

Comment

The Town's general ledger captures all financial activity related to the Town's operations. We identified several areas regarding the setup (which has been the same for approximately 15 years) and maintenance of the general ledger that could be improved, which are as follows:

1. Inter-fund transfers in and transfers out accounts are not included as part of the subsidiary accounting ledgers. As a result, inter-fund transfers in and out are recorded directly to control/fund balance accounts.
2. A separate subsidiary fund is utilized to process all disbursements related to refunds, payroll withholdings and teacher's summer pay.
3. Several instances whereby journal entries were recorded directly to control/fund balance accounts
4. Several instances whereby revenues were being posted incorrectly because the appropriate revenue account did not exist in the subsidiary ledgers

Although the manual financial statements and schedules prepared by the Finance Director accurately report beginning fund balances and current year activity, the current general ledger setup and processes identified above does not accurately reflect beginning fund balance and current year activity in the general ledger, which inhibits accurate financial reporting.

Recommendation

We recommend the following:

1. Transfers in and transfer out accounts be established in the subsidiary accounting ledgers for all funds maintained.
2. All disbursements be posted to the fund the disbursement applies to.
3. Procedures be implemented to eliminate the posting of journal entries directly to fund balance accounts, unless the journal entry is *between* fund balance accounts in the *same* fund.
4. Procedures be implemented to identify, establish and post cash receipts to the appropriate revenue accounts at the point of original entry.

Management's Response

Changes to the general ledger will begin as soon as possible in a manner that will not interfere with the current operations or reporting. We recognize the importance of the changes needed however, it needs to be noted that this general ledger accounting system has been and will still function until the changes are completed.

Capital Assets

Comment

The Town's June 30, 2011 capital asset inventory was not updated and completed until February of 2012. The current condition inhibits timely financial reporting.

Recommendation

We recommend procedures be implemented to maintain and update the Town's capital asset database so that all additions, disposals and depreciation are recorded no later than 90 days following the close of the fiscal year.

Management's Response

The Town will establish a system for monitoring and updating the fixed assets in order to ensure a timely recognition of all additions and disposals.

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.”

As reported in the prior year Management Letter, 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 has initiated a process that requires the Director of Business Services to conduct an annual performance audit of all student activity accounts based upon MGL, Chapter 71, Section 47 or the guidelines issued by the department of education.

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 management continue the development of the financial policies and procedures manual.

Management's Response

The Town will continue its development of the financial policies and procedures manual.

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.

As reported in the prior year Management Letter, 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 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

A written policy for indirect cost allocation has begun and will be used and updated annually during budget preparation.

Bank Accounts Using the Town's Tax Identification Number

Comment

We identified two bank accounts (both related to the Bourne High School) using the Town's tax identification number that are not authorized by the Treasurer or accounted for on the general ledger.

The Treasurer should have signature authority on all bank accounts maintained under the Town's tax identification number and the activity related to the bank accounts should be recorded in the general ledger if they are for a legitimate Town purpose.

Recommendation

We recommend the Treasurer investigate the nature, purpose and activity of the unauthorized accounts and take appropriate action.

We recommend, annually, the Treasurer send confirmation letters to local financial institutions requesting they provide the Town with a list of bank accounts held under the Town's tax identification number. This process will help identify accounts that have been opened under the Town's identification number without proper authorization.

Management's Response

The Town contacted the Bank and High School to inform them the accounts could not use the Town's tax identification number. Both accounts were tied into a CD at year end and once the CD matured they changed the accounts so they no longer were under the Town's tax identification number.