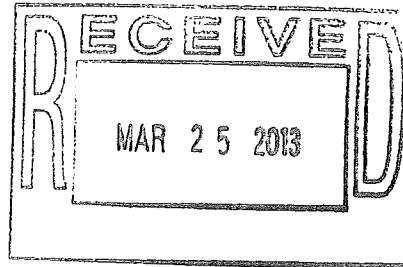


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March 19, 2013

Mr. Derek Sullivan, Town Administrator
Town of Wareham
54 Marion Rd.
Wareham, MA 02571

Dear Mr. Sullivan:

Enclosed please find five draft copies of the *reports on federal award programs* and *management letter* for the Town of Wareham, Massachusetts for fiscal years ended June 30, 2012.

Should you have any questions, please do not hesitate to contact our office.

Sincerely,

Jennifer Couillard
Audit Administrator

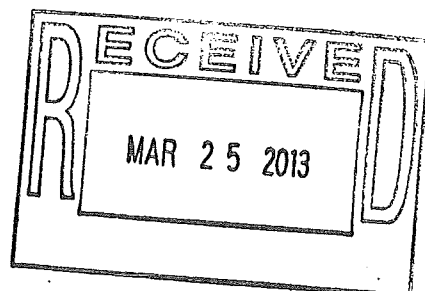
Enclosures

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TOWN OF WAREHAM, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2012



Draft

To the Honorable Board of Selectmen
Town of Wareham, Massachusetts

In planning and performing our audit of the financial statements of the Town of Wareham, Massachusetts (the Town), as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, 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 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

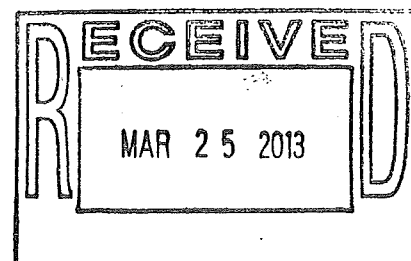
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination 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. We have identified these findings in the material weakness section of this report.

In addition, we became aware of other matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning the other matters.

We will review the status of these other matters and material weaknesses during our next audit engagement. We have already discussed these comments and suggestions with various Town personnel, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

December 7, 2012

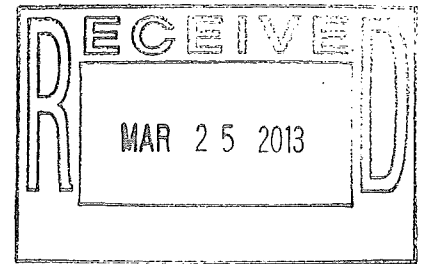


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TOWN OF WAREHAM, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2012

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MATERIAL WEAKNESS

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Inadequate Design of Internal Control Over Significant Accounts and Transaction Types

Management must rely on the financial information generated by the Accountant's Office, the Treasurer's Office and the Collector's Office to make decisions that affect Town strategy in developing and meeting short-term and long-term financial goals. Consequently, management must be confident that the information they base their decisions on is complete and accurate. This confidence is gained when there is reasonable assurance that the internal control structure over cash, receivables, revenues and expenditures is of sound design and is functioning as intended.

Each of the Offices noted above plays a key role in developing and monitoring of a sound internal control structure. These roles are summarized as follows:

- The Accountant's Office is responsible for establishing and maintaining procedures to assure that 1) all Town receipts and disbursements are properly authorized and accurately and timely recorded in the general ledger and 2) all journal entries are properly recorded and all have complete supporting documentation.
- The Treasurer's Office is responsible for establishing and maintaining procedures to 1) properly safeguard the Town's cash and investments and 2) assure that all receipts and disbursements are reported accurately and timely.
- The Collector's Office is responsible for establishing and maintaining procedures to 1) assure all bills submitted to the Office are collected as quickly as possible 2) secure the Town's interest in property for delinquent taxes and 3) process receipts promptly in order to maximize cash flow and investment earnings.

Considering these general roles, our review of the internal control structure of these Offices revealed the following deficiencies:

Health Insurance Trust Fund

Comment

The Town established a Health Insurance Trust Fund in FY 2005 in which the Town and Employees' retain the risk of providing insurance. Massachusetts General Laws Chapter 32B, Section 3A establishes the requirements on how these funds must operate. A brief summary of the key elements of Wareham's Trust from inception to the end of FY 2012 are as follows:

- The agreement between the Town and employees will establish a funding split where each party agrees to contribute its share of premiums to the Trust. For Wareham, the employer's share is 75% and the employee's share is 25%. Therefore, if the monthly premium is \$1,000 the employee must contribute \$250 and the Town \$750.
- The net assets or net liabilities are shared by both the Town and employees. If the 25/75 split is determined not to be in balance then the Town must take measures to periodically rebalance the fund.
- For the first four years of operating the Trust the Town did not properly account for the activity and was not sure if the fund was in balance. An audit of the activity from inception to the end of FY 2008 found that of the total fund balance of \$2,442,201, the fund was out of balance by only \$44,772. The employees had contributed a little more than their required 25% share.
- Each succeeding year has been audited and the amount out of balance has increased significantly.

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- In FY 2009, the Town did not properly match the employee's contribution and the employees had contributed \$103,727 more than their required share for the year. At the end of the fiscal year the cumulative unmatched employee contribution was \$148,499.
- In FY 2010, the Town did properly match the employee's contribution. At the end of the fiscal year the cumulative unmatched employee contribution remained the same at \$148,499.
- In FY 2011, the Town budgeted exactly \$5,500,000 in the General Fund and only matched the employees' contribution up to the \$5.5 million. Therefore, the Town did not properly match the employees' contribution and the employees' had contributed \$306,058 more than their required share for the year. At the end of the fiscal year, the cumulative unmatched employee contribution was \$454,557.
- In FY 2012, the Town reduced its General Fund budget from \$5.5 million in FY 2011 to \$4,119,235, a reduction of \$1,380,765. The Town authorized two months of a "premium holiday" for both the employer and employee which resulted in a decrease in actual contributions of \$1,695,695 from FY 2011. This reduction along with increased expenses saw an overall decrease in net assets of \$2,132,574.
- The Town not only did not properly match the employees' contribution the ending balance for the Town is a negative (\$183,312). Therefore, the employees' year-end surplus balance of \$837,517 was used to support the Town's deficit.

At the end of FY 2011 the Town had a positive balance of \$1,749,166 and needed to rebalance the fund with the employees' by granting an employee only premium holiday for \$454,557 in FY 2012 and the fund would have remained solvent. The Massachusetts Department of Revenue Director of Accounts strongly advised the Town to rebalance the fund and for the Town to make their full contribution in FY 2012 without taking a premium holiday. We supported the Director's recommendation and made a similar recommendation. The Town did not follow the recommendations given, did not rebalance the fund and subsequently approved the health care premium withholding holiday of approximately 2 months to occur during fiscal year 2012.

In order to rectify this serious financial short-fall the Town must take actions to resolve this deficit. The first option to rebalance the fund would require the Town to match the employee surplus of \$837,516 by voting a General Fund appropriation of \$2,695,860 which will leave the Town with net assets of \$2,512,548. The second option to rebalance the account would require a General Fund appropriation of \$183,312 which will eliminate the deficit and grant an employee only premium holiday for \$837,516. This would leave both the employer and employee net assets of zero. The third option is to find a balance between both extreme options explained above.

At the end of fiscal year 2012, the Town had general fund certified free cash totaling \$1,284,829. If the Town made the required contributions then the Town would have had negative free cash of (\$1,411,031). A possible third option is to vote to transfer free cash into the Trust which will eliminate the deficit and leave an employer surplus of \$1,101,517 (75%). The next step would be to authorize an employee only holiday of \$470,344 which will result in an employee balance of \$367,172 (25%). These options will only correct the FY 2012 problem.

The Town will need to contribute its full share in FY 2013 and all future years in order to prevent future deficits. The Town's fiscal year 2013 health insurance appropriation is budgeted at \$5,702,865 which is approximately the same amount budgeted in FY 2010. However, based on the fiscal year 2012 actual expenses along with the rising costs of healthcare, this appropriation will not be sufficient to match the employee contribution and cover the fiscal year 2013 expenditures. We expect this to remain a problem in FY 2013.

The following tables show the trend of both actual employer and employee contributions made and the ending split in fund balance for the last five fiscal years.

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Schedule of Health Care Contributions

<u>Fiscal Year</u>	<u>General Fund Contributions</u>	<u>Grant Contributions</u>	<u>Total Town Contributions</u>	<u>Employee Contributions</u>	<u>Total Contributions</u>
2008	\$ 5,496,318 95%	\$ 263,271 5%	\$ 5,759,589 76%	\$ 1,824,067 24%	\$ 7,583,656
2009	4,680,251 90%	528,184 10%	5,208,435 74%	1,845,418 26%	7,053,853
2010	5,265,651 92%	447,420 8%	5,713,071 75%	1,939,599 25%	7,652,670
2011	5,500,000 95%	276,326 5%	5,776,326 72%	2,235,626 28%	8,011,952
2012	4,119,235 94%	280,655 6%	4,399,890 70%	1,916,371 30%	6,316,261

Schedule of Employer and Employee Fund Balances

<u>Fiscal Year</u>	<u>Town</u>	<u>Employee</u>	<u>Total</u>
2008	\$ 1,798,072 74%	\$ 644,129 26%	\$ 2,442,201
2009	1,488,376 70%	644,624 30%	2,133,000
2010	1,675,605 70%	707,033 30%	2,382,638
2011	1,749,166 63%	1,037,612 37%	2,786,778
2012	(183,312) -28%	837,516 128%	654,204

In addition to the Town not making the required contributions the Town's accounting for the Trust Fund has continued to be seriously deficient from inception. Although significant accounting improvements have been made in the last two years, we still consider the current process to be a material weakness in internal controls.

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Recommendation

The Town must find a short and long-term solution to funding the Trust with its required contributions. The accounting ledgers and procedures must be updated and documented that will allow for interim reports to occur that will properly measure the financial condition and contribution levels throughout the year. Management must make the Selectmen and Finance Committee aware of any potential fund or contribution deficit early in the fiscal year. Below is a summary of the changes required in the accounting for the Town's self-insured health insurance activities.

1. The Town is not making their required contribution to the fund and as a result the Town's balance is a negative at June 30, 2012. This fund must be treated in effect the same way as if the Town was premium based. If the Town was receiving a bill each month for the total premiums they would not have the option of sending something less than the required employer premium. The Town is in effect borrowing from the employees' balance to fund current claims.
2. Numerous adjustments were required to properly state the activity. Procedures must be put in place to properly account for all required types of monthly contributions:
3. The Town's chart of accounts needs to be expanded to properly track and account for all expenses. At a minimum, expense accounts should be setup for health care level premiums to each vendor, catch up contributions by vendor, dental care costs, legal services, consultant fees, etc.
4. The Town's chart of accounts needs to be expanded to properly track and account for all revenues. At a minimum, there should be a revenue account for each type of activity that is posted to the fund such as; employee contributions; employer contributions; stop loss reimbursements; drug subsidies; investment income; COBRA payments. Although the new chart has some of the mentioned revenue accounts, procedures must be implemented to assure that the accounting for each type of revenue is correct.
5. The Town should be maintaining this fund on the accrual basis of accounting and therefore recording and updating each year; Incurred But Not Reported Claims; prepaid employee withholdings; working capital deposits; any receivables/liabilities for amounts due/owed related to the difference between level funded premiums paid and the actual claims paid.

The balance and activity of the Health Insurance Trust fund are properly reported on the financial statements and the employee/employer share of net assets has been calculated and reported above.

- o For fiscal year 2012, many of the general ledger control accounts did not reconcile with the subsidiary ledgers. We noted numerous posting errors due to establishing automatic entries that did not link ledger accounts properly. We also found other issues within the general ledger such as journal entries being posted directly to the control accounts, beginning balances improperly rolled forward and many funds whose reporting was inadequate and unreliable due to linking issues between account types and funds which caused the reporting to be undependable to make informed management decisions on. This has been a material weakness in fiscal years 2009 through 2011.
 - o Current Status – During fiscal year 2012, the Town hired a consulting firm to act as the Town Accountant for approximately two thirds of the fiscal year, at which time a full time Town Accountant was hired. Prior to the start of the fiscal year 2012 audit, the new Town Accountant was not retained and the Town was again without a full time Town Accountant. Through a review of the Town's ledgers for fiscal year 2012, we observed that journal entries to control accounts still existed, which resulted in variances between the control accounts and the revenue and expenditure sub-ledgers. We also noted that multiple linking issues still existed during the fiscal

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year. We have worked with Town personnel to address the direct postings to the control account as well as, the various linking issues to make the necessary corrections for both financial statement presentation and for the Town on a go forward basis. We would expect this material weakness will be resolved in fiscal year 2013. However, the Town needs to hire a full-time Town Accountant that can assume the responsibility of overseeing the general ledger.

- o In previous management letters, we noted that there were not timely reconciliation procedures between the Accounting Office and all other Town Departments. The lack of timely reconciliations continued to be a material weakness in fiscal year 2012.
 - Current Status – As of the date of our fieldwork, reconciliations were performed by Accounting personnel and other Town Departments. However, these procedures were not implemented during fiscal year 2012 and occurred subsequent to fiscal year end. Assuming that the Town Accountant's Office continues to work with other Town Departments, in a timely manner, during fiscal year 2013 we would expect this material weakness to be resolved in fiscal year 2013.
- o In fiscal year 2010, we observed an inordinate amount of unsupported journal entries being posted to the Town's general ledger. In fiscal year 2011, the number of unsupported journal entries were significantly reduced however even one unsupported entry is a weakness in internal control. In fiscal year 2012, we were able to obtain support for all journal entries reviewed, however the number of journal entries is still at an unacceptable level. Departments must work to enter transactions correctly the first time and take the time to ask a question if the correct method is not initially known. Most of what we observed in reviewing the ledger is multiple correcting entries being used to correct a transaction initially entered incorrectly.

The next problematic issue is the purpose for these entries. The accounting system used by the Town, along with most systems, is designed to minimize the need for any journal entries. Recording the transaction properly and charging it to the correct account at its inception is the most efficient and accurate means of recording the Town's financial activity. For example, when a receipt is received it is entered into the system and credited to the correct revenue account/fund. When employees or vendors are paid the expenditure is to be charged to the account/fund that incurs the expense. The only need for a journal entry should be to correct errors, which should be minimal. If there is a need for a significant number of corrections to the original transactions there is a material weakness in the design of the accounting process. If the Accounting Office finds that journal entries are needed frequently, an immediate review of the policies and procedures surrounding the transaction type in question should be performed to isolate where the deviation from prescribed policies and procedures is occurring and what the correct fix should be. Until this process is changed then a material weakness will continue to exist.

- Current Status – As noted above, the number of journal entries decreased in fiscal year 2012, however the number posted in 2012 was still at an unacceptable level. The majority of fiscal year 2012 journal entries posted were maintained with appropriate supporting documentation however, policies surrounding what is acceptable documentation should be addressed and the journal entry policy updated accordingly. Until the Town is able to hire and keep a Town Accountant we would expect that this process and the resulting material weakness will not change for fiscal year 2013.
- o As noted in previous management letters, cash reconciliations between the Treasurer's records and the general ledger have not occurred for fiscal years 2010 and 2011. During fiscal year 2012, the consulting firm hired to act as the Town Accountant worked to reconcile general ledger cash to the Treasurer's records for each month through their contract with the Town. Management was working to implement monthly reconciliation procedures subsequent to their departure. The Accounting Office has been working with the Treasurer's Office to work towards timely cash reconciliations occurring every month.

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- Current Status – The reason this is still considered a material weakness is due to the fact that defined reconciliation procedures that occur each month were not in place at the time of our audit. We have seen much progress made in this area however, cash must be reconciled and agreed upon by both the Treasurer's Office and the Town Accountant's Office in a timely manner every month. If the reconciliation procedures are formalized and carried out in a timely manner during fiscal year 2013, we would anticipate this material weakness will be considered resolved.
- In previous management letters, we noted that receivable reconciliations were not performed between the Collector's records and the general ledger during fiscal years 2010 and 2011. For fiscal year 2012, the process of reconciling the receivables occurred timely some months of the fiscal year but not consistently. Multiple reconciliations and their required adjustments were still being recorded in November and December of 2012. These reconciliations must be performed on a monthly basis and reconciling items need to be researched and corrected timely. Reconciling both the activity and the ending balances of the accounts receivable is an integral internal control procedure over the most significant revenue sources of the Town. This lack of timely reconciliations does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the course of their normal duties. In simpler terms, the Town's ability to obtain the objectives of a proper system of internal controls is inhibited. Furthermore, the Town has lost the ability to ensure that key assets and revenue sources are adequately safeguarded.
 - Current Status – We noted that the reconciliation process was started during fiscal year 2012, but was not carried out every month in a timely and consistent manner. At the time of our audit, numerous reconciliations were still occurring and the related adjustments were being recorded to properly state the receivable balances as of June 30, 2012. The only way to eliminate this material weakness is to implement procedures to reconcile the receivable balances every month and address any reconciling items in a timely manner.
- In previous fiscal years, management was not able to provide an accurate reconciliation between the authorized town meeting votes, the tax recap, budget transfers and the budget recorded within the general ledger. The Town is responsible for monitoring the approved budget and assuring that funds are available to cover the appropriations and that the level of spending is in line with the amounts authorized at town meeting. The lack of procedures in place to reconcile the approved votes to the tax recap and the general ledger can lead to a situation in which line items are overspent, unallowable costs are paid, and department heads do not have accurate information to monitor current operations.
 - Current Status – The Town was able to provide a schedule that reconciled the town meeting votes to the general ledger, however reconciliation to the tax recap was not performed. During our audit, we assisted with the completion of the reconciliation from the votes to the tax recap and have determined that a variance of \$46,169 exists. The Town's budget should be of the highest importance and a reconciliation of the votes, to the ledger and ultimately to the tax recap should be performed after every town meeting and prior to submission of the tax recap for certification. The Town needs to complete a comprehensive reconciliation all through the fiscal year and make any appropriate adjustments to the ledger at least monthly. Until these procedures are implemented this finding will continue to be a material weakness.
- In previous management letters we noted, the Town does not have proper controls or reconciliation procedures in place to account for betterments. During fiscal years 2010 and 2011, numerous errors and double posting of activity and balances occurred to the betterment accounts maintained within the general ledger.

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- Current Status –During fiscal year 2012, no formal reconciliation procedures were implemented to reconcile the betterment accounts. A reconciliation process was started subsequent to fiscal year end which identified various mispostings, as well as, the yearly adjustments between apportioned and un-apportioned were not made during fiscal year 2012. Since these errors still existed subsequent to year-end it is apparent that there was no account review or reconciliation completed between the ledgers and the records maintained by the Assessor's Office during the year.

These errors were not discovered or corrected until after we began our year end audit procedures. Correcting journal entries have been recorded to the general ledger and for financial statement purposes. The only way to eliminate this material weakness is to first design policies and procedures on the reconciliation process that identify persons responsible for each procedure. The next step is to implement the process.

Summary

In summary, the objectives of an internal control structure are to safeguard the assets of the Town and provide reasonable assurance that transactions are executed in accordance with management's authorization and recorded properly in the Town's ledgers. The omission of one or more elements of internal control can compromise the Town's ability to obtain these objectives. We have concluded that the deficiencies noted above, individually and collectively, represent material weaknesses in the Town's system of internal control under standards established by the American Institute of Certified Public Accountants.

These deficiencies constitute being classified as material weaknesses because they represent significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Town's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Furthermore, we believe that the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

As of the date of this report, the Town is without a Town Accountant. Having a strong Town Accountant is integral for the Town to be able to remedy the various material weaknesses noted here. The longer the Town goes without a full staff within the Town Accountant's Office; these issues will just perpetuate and potentially become worse.

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OTHER MATTERS

Prior Year Comments

Formalize Capital Asset Reporting

Prior Comment

The Town has previously relied on the assistance of their audit firm to assist in maintaining its capital assets activity and detailed listing.

The Town has no procedures in place to account for fixed asset additions, deletions, disposals or transfers. Compliance with GASB #34 requires the Town to maintain a complete and accurate fixed asset listing.

Recommendation

We continue to recommend that management take on the responsibility to develop and implement procedures to track additions, deletions, disposals and transfers of fixed assets so that an accurate fixed asset listing in compliance with GASB #34 can be maintained.

Current Status

No fixed asset policies and procedures were implemented during fiscal year 2012.

Preparation of the Schedule of Federal Awards

Prior Comment

As part of the annual Single Audit, the Town is required to prepare and file a Schedule of Expenditures of Federal Award Programs with the Federal Audit Clearinghouse and the Department of Revenue. To meet this reporting requirement the following information is necessary:

- Detailed information on all Federal Awards received.
- The agency in which the funds were received from.
- The Catalog of Federal Domestic Assistance number (CFDA #) of each grant.
- The amount of funds expended in the fiscal year under audit.

The Town was unable to provide this information for the fiscal years ended June 30, 2009 through 2012.

As a result there is a risk that the Town would not be able to meet filing requirements related to this information and that the information reported within the Report on Federal Award Programs could be inaccurate or not include all of the grants required to be reported. For the fiscal year ended June 30, 2012, we assisted the Town Accountant's Office in compiling the necessary information to meet all federal and state reporting requirements.

Recommendation

We continue to recommend that the Town Accountant's Office work with all department heads to develop a comprehensive listing of all Federal awards the Town receives, where they are being recorded in the general ledger and establish procedures to allow for the compiling of this information in a timely manner each fiscal year.

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As part of the new fund and account structure being developed the Town should determine if it is possible to add a segment to the account structure that identifies federal and state grants.

Current Status

Management has not implemented procedures to account for all current and future federal grants and the related information required to complete the Report on Federal Award Programs.

Automation of Compensated Absences

Prior Comment

The records for accrued compensated absences are maintained primarily by Department Heads and the Town Administrators Office on individual employee cards. We believe there is a need for the Town to centralize the system of tracking and accruing compensated absences to ensure compliance with the multiple union contracts and other employment agreements. The present system does not minimize the risk that time earned and taken will not be recorded properly.

The employee cards are sent to each employee on a semi-annual basis for their review. At fiscal year end, the cards are summarized on a spreadsheet for audit accrual purposes. However, the spreadsheet does not account for buyback provisions, vesting schedules or other adjustments necessary to determine the most accurate estimate of the required liability.

Since the Town has converted its payroll functions to Harpers, it is possible to record and monitor the compensated absences liability through the payroll system. This would provide greater internal control over accumulated sick and vacation time.

Recommendation

We continue to recommend that the Town implement a centralized system for recording and monitoring compensated absences and explore the benefits of utilizing the package available through the Harpers payroll system.

Current Status

There has been no change in the way the Town is accounting for compensated absences during fiscal year 2012.

Withholding Accounts

Prior Comment

The payroll withholding liability accounts do not appear to be reconciled on a monthly or quarterly basis. The balance in each withholding liability account should represent amounts withheld from employees but not yet paid out. This is usually one week to one month worth of withholding, depending on the type of withholding. These accounts should be reconciled on a regular basis to ensure all withholdings are being properly paid out and properly charged to the withholding account. During our audit we have noticed that many of the withholdings accounts have debit balances. Therefore, it appears that the Town has made a number of overpayments from these accounts causing the debit balances.

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Recommendation

We continue to recommend that the procedures be implemented to ensure that correct amounts are paid from the withholding accounts and that the accounts are reconciled in a timely manner.

Current Status

During FY2012, no reconciliation procedures were implemented regarding the payroll withholding accounts. We noted that many of the accounts either have debit balances or balances that have not changed since last fiscal year.

Internal Control Policies and Procedures Manual

Prior Comment

We noted that most departments do not maintain a formal internal control policy and procedures manual documenting day-to-day processing and controls. The Town is at risk if critical tasks cannot be completed due to an extended or unforeseen absence. A formal internal control policy and procedures manual will assist each department head in the training of new departmental employees thereby reducing the amount of time required away from the daily departmental operations.

Recommendation

We continue to recommend that each department head develop an internal control policy and procedures manual that includes proper reviews and approvals by management. The document should be written with sufficient detail to allow a new employee the ability to complete the task by reviewing its respective directions. This document should be updated for any system or policy changes. A master manual of all procedures should be maintained and stored in a secure location. In addition, all department heads should be familiar with all policies and procedures within their office and be able to complete all necessary tasks in order to sufficiently train employees.

Current Status

Various departments have started the process of documenting their policies and procedures. However, this process is continuing and management expects this comment to be resolved by the end of fiscal year 2014.

Develop Written Disaster Recovery Procedures

Prior Comment

The Town does not have well-defined, written disaster recovery procedures. The time to make contingency plans is before disaster strikes, so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing IT facilities.

Recommendation

We continue to recommend that management develop a disaster recovery plan that includes, but is not limited to, the following matters:

1. Location of, and access to, off-site storage.

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2. A listing of all data files that would have to be obtained from the off-site storage location.
3. Identification of a backup location (name and telephone number) with similar or compatible equipment for emergency processing. (Management should make arrangements for such backup with another organization, a computer vendor, or a service center. The agreement should be in writing.)
4. Responsibilities of various personnel in an emergency.
5. Priority of critical applications and reporting requirements during the emergency period.

Current Status

The Town developed a written disaster recovery plan during fiscal year 2012 that addresses the key areas noted above. Management also acknowledges the fact that this is not a static document and should be reviewed on a periodic basis.

Construction Deposits

Prior Comment

Various departments receive deposits from developers as surety accounts on building projects. The deposits are placed into a bank account, in which the Treasurer and the developer have signing authority. When a project is completed and the developer has satisfactorily fulfilled his obligation, or as phases are completed, the Board overseeing the project may vote to release funds to the developer. If the developer does not complete a project satisfactorily, the Board may vote to use the funds in the account to complete the project or compensate the Town for the insufficient work.

We noted that there are no reconciliation procedures between the various Boards, the Treasurer's Office and the Town Accountant's Office. This could lead to a situation in which monies have been paid out to a developer from the general fund and the monies were never transferred from the construction deposit account to replenish the Town. Therefore, there may be a transfer due to the general fund which would increase the free cash of the Town.

Recommendation

We continue to recommend that the Treasurer's Office, the Town Accountant's Office and the various Boards responsible for overseeing these deposits implement reconciliation procedures on a monthly basis.

We also recommended that a review of all accounts that have bank balances be completed to determine if a liability still exists and/or if any correcting entries are necessary.

Current Status

During fiscal year 2012, a formal reconciliation was completed with all applicable departments agreeing to the final reconciled balances. The Town must now implement ongoing reconciliation procedures to assure that these accounts remain reconciled.

Community and Economic Development Authority (CEDA) Loan Program

Prior Comment

The CEDA office administers housing rehabilitation loans to residents of the Town of Wareham. There are two types of loan programs that this office administers which are based on income eligibility. An applicant that is considered to be very low income is eligible for a 15 year deferral loan which 1/15 of the principal is forgiven in

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each year until the 15 year period has expired. An applicant considered to be low/moderate income is eligible for a 15 year low interest loan in which a principal payment and 3% interest is due each year.

The detailed records of the CEDA office have not been reconciled to the Town Accountants detail since fiscal year 2009. Not reconciling the accounts can cause a situation where the Town could not collect the total loan owed. The Town could potentially lose out on program income which is used to help fund these loan programs.

Recommendation

We continue to recommend that the CEDA office reconcile detailed balances within the CEDA office and then with the Town Accountant. Procedures should be implemented to reconcile all balances on at least a quarterly basis.

Current Status

The CEDA office and the Town Accountant's office worked to reconcile the fiscal year 2012 activity, however no procedures have been implemented to reconcile the outstanding balances on at least a quarterly basis.

Fraud Risk Assessment

Prior Comment

The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Town perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Town's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the Town that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Town, its environment, and its processes. The fraud risk assessment process should consider the Town's vulnerability to misappropriation of assets.

When conducting the self-assessment, questions such as the following can be considered:

- What individuals have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- What assets of the Town are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and

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cashing them for personal use.

- o How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.

Recommendation

We continue to recommend that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation.

Current Status

A fraud risk assessment program was not developed or implemented during fiscal year 2012.

Tailings Procedures

Prior Comment

We noted that when the Treasurer's Office is moving checks to tailings they are going into the general ledger and voiding the original check. This has the effect of reducing the expenditure and increasing cash. Accounting personnel then records a journal entry to debit the tailings liability and credit cash. This has the effect of understating general ledger cash, liabilities and expenditures.

Recommendation

We continue to recommend the Town follow prescribed UMAS procedures for handling tailings. The Town should work with their software vendor to fully understand the process of voiding checks for the purpose of tailings. A review should also be completed for all past tailings entries and make adjusting entries as necessary.

We also recommend that reconciliation procedures be implemented between the Treasurer's Office and the Town Accountant's Office.

Current Status

During fiscal year 2012, tailings checks reissued were charged to a tailing account maintained in the general fund and checks added to tailings were added to a tailings account maintained within the agency fund. We recommend that all tailings activity flow through the agency tailings account. At fiscal year end, there is a \$12,000 variance between the records maintained by the Treasurer's Office and the general ledger. Reconciliation procedures must be put in place to reconcile this account on at least a quarterly basis.

Police Detail Receivables

Prior Comment

Currently there are no formal reconciliation procedure between the Police Department and the Town Accountant's Office for police detail receivables. The summary outstanding balance reported in the general ledger should be reconciled at least quarterly to the detail maintained by the Police Department. It is important to maintain an accurate receivable balance and detail listing so the Police Department can track down delinquent vendors prior

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to providing any further details. Also, by maintaining an accurate receivable listing, the Town can minimize the possibility of creating a permanent deficit that ultimately would have to be funded by the general fund.

As of June 30, 2012, there is a variance of approximately \$19,000 between the general ledger and the listing provided by the Police Department. We also noted that many vendors are behind on making payment to the Town. The Town should consider implementing collections procedures to keep these payments current.

Recommendation

We continue to recommend that the Police Department and the Town Accountants Office reconcile the police detail balance and general ledger activity on at least a quarterly basis. We also recommend that the Police listing be reviewed and any vendors with old outstanding balances be contacted to initiate collection and/or withhold further details until the old receivables are collected.

Current Status

No formal reconciliation procedures were implemented during fiscal year 2012.

Student Activity Accounts

Prior Comment

The Treasurer's Office and the Town Accountant's Office periodically reconcile the Student Activity accounts. Adjustments are made on a semi-annual basis to transfer funds from the Student Activity Savings account to the depository account to fund replenishments. However, in order to properly reflect the cash in the Student Activity accounts, this process must be done on at least a quarterly basis.

We also noted that student activity checking account reimbursements are being processed and funds are being moved within bank accounts prior to the approval and processing of the warrant. This should not occur prior to approval of the warrant. This process also creates a cash variance between the general ledger and the Treasurer due to the fact that the checking accounts are not maintained as part of the cashbook and the general ledger.

Recommendation

We recommend that the Treasurer's Office reconcile the Student Activity bank accounts at least quarterly to the general ledger and transfer the necessary funds to cover replenishments and properly state the Student Activity cash balances.

We also recommend that replenishments of student activity checking accounts do not take place until the approval and processing of the warrant.

Current Status

During fiscal year 2012, the Treasurer and School Department worked to implement procedures addressing the recommendations noted above.

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Audit of Health Insurance Plans

Prior Comment

We noted that the Town does not currently perform periodic audits of the health insurance enrollment to determine eligibility of the current subscribers. As a result, there may be individuals receiving health care benefits that are not eligible to be enrolled in the Town's health care plan. Having ineligible subscribers enrolled in the plan would have an adverse affect on health insurance premiums for the Town and eligible subscribers.

Recommendation

We recommend that the Town adopt a policy requiring monthly spots checks and semi-annual audits of the health care plan enrollment to verify eligibility of the subscribers.

Current Status

The Town has reviewed the health insurance enrollments to verify that they are not paying for individuals who are no longer employed by the Town. During fiscal year 2013, the Town intends on implementing procedures to review the enrollment, on at least a quarterly basis, and identify ineligible subscribers as recommended.

Chart of Accounts

Prior Comment

In previous management letters, we noted that there are multiple link issues with the new chart of accounts relating to accounts receivables. When a cash receipt is posted only the cash and revenue side of the entry was being recorded, the reduction in deferred revenue and accounts receivable was not occurring in many instances. Correcting journal entries have been provided and recorded for financial statement purposes.

We also noted that there are a handful of funds that appear to have been setup twice and have revenues going into one fund, while expenditures are being recorded to another fund. A listing of the noted funds has been provided to the Accounting Office.

The budgeted amounts posted to the revenue and expenditure ledgers were made at the summary level and not at the individual line item. By posting the budgeted amounts at a summary level instead of on a detailed level, departments will have a more difficult time managing their operations and it will be more difficult to evaluate revenue collections against the estimate.

Recommendation

We recommend that the noted link, duplicate funds and budget posting issues be corrected in fiscal 2012.

Current Status

Link issues still existed during fiscal year 2012. Many were discovered during the audit and corrected. The Town Accountant's Office must review the links and through reconciling the receivable accounts and current year activity assure that all link issues have been corrected.

Duplicate funds were closed during fiscal year 2012. The revenue and expenditure general fund budgets were properly posted to the general ledger during fiscal year 2012.

Snow and Ice Appropriation

Prior Comment

The Town is allowed, under MGL, Chapter 44, Section 31D, to over-expend the budget for the removal of snow and ice, as long as the appropriation for each fiscal year is at least equal to the prior year's appropriation. Any deficits created from this are raised in the subsequent fiscal year.

The Town generally budgets the minimum amount for snow and ice removal based on the prior year's budget. Although this amount is difficult to predict, budgeting low each year causes the Town to raise substantial snow and ice deficits on the subsequent year's tax recap. Although the practice of under-budgeting for snow and ice removal is legal, it does not demonstrate prudent budgeting practices.

Recommendation

The Town should establish budget policies to incorporate realistic estimates for the removal of snow and ice in the initial Town Budget. The amount budgeted does not have to be the worst case but could be the rolling average of the last three or five years of actual expenses.

Current Status

The Town increased the snow and ice budget for fiscal year 2012 by \$15,000. However, the budget is still materially understated in relation to the usual actual expenditures incurred.

Cost Allocation Plan Between the Town and the School District

Prior Comment

Certain Town-wide expenses such as employee benefits, treasury, accounting, retirement benefits, and various insurances are allocated to the School District using methodologies that have been in place for many years. The Department of Elementary and Secondary Education (DESE), which is the oversight agency for the District, requires that a written agreement that documents the School Committee and Municipal Official's methodologies be used when allocating, distributing or assigning municipal expenditures to the District. While inquiring about this written agreement during our recent audit we were informed that a written agreement has never been drafted.

Recommendation

In order to comply with the DESE requirement and to ensure that allocations made to the School District are proper and agreeable between the parties, we recommend that that a written agreement documenting the process be developed and implemented. It is important to understand that an allocated expense is never an exact amount when compared to a direct charge but instead should consistently calculate a reasonable charge that is fair and expected.

The benefit of implementing these recommendations will be the assurance that the general fund is not subsidizing the School's operations and that the Town has a documented sound policy that can be used to balance future budgets.

Current Status

We are unaware of any written agreement being formalized between the Town and the School Department.

Current Year Comments

Municipal Relief Budget Transfers

Current Comment

Massachusetts General Laws Chapter 44 Section 33B states that; "A town may, by majority vote at any meeting duly held, transfer any amount previously appropriated to any other use authorized by law. Alternatively, the selectmen, with the concurrence of the finance committee or other entity establish under section 16 of chapter 39, may transfer within the last 2 months of any fiscal year, or during the first 15 days of the new fiscal year to apply to the previous fiscal year, any amount appropriated for the use of any department other than a municipal light department or a school department to the appropriation for any other department or within a department, but the amount transferred from 1 department to another or within a department may not exceed, in the aggregate, 3 per cent of the annual budget of the department from or within which the transfer is made or \$5,000, whichever is greater.

In closing out fiscal year 2012, the Town reallocated multiple line items within various departments that exceeded the larger amount of 3% or \$5,000 of that department's budget.

Recommendation

We recommend that management implement a policy in which the allowable ceiling for a budgetary transfer by department is calculated and reviewed prior to authorizing any year-end appropriation transfers.

Other Postemployment Benefit Actuarial

Current Comment

For financial reporting purpose, an actuarial valuation is required at least biennially for OPEB plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more, or at least triennially for plans with total membership of fewer than 200.

For the Town of Wareham to remain compliant with GASB Statement #45, the Town must obtain an updated actuarial valuation that would be dated July 1, 2012, and will be used for the fiscal year 2013 and 2014 audits.

Recommendation

We recommend that the Town work with their actuarial firm to assure that any information needed to update the report is provided in ample time for the fiscal 2013 audit.

Departmental Receivable Commitments

Current Comment

During our audit of the Town's departmental receivables we noted multiple commitments had not been posted to the general ledger. The missing commitments related to SEMASS refugee receivable, water and sewer user fees, and the due from Bourne accounts.

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Failing to record commitments in the general ledger results in the receivable balances being understated and causes the reconciliation process to be more cumbersome and time consuming. If these accounts had been reconciled with the applicable department in a timely manner these missing commitments would have been discovered.

Recommendation

We recommend that the Town implement procedures to reconcile all miscellaneous departmental receivables are reconciled on a monthly basis which will facilitate the discovering of unrecorded commitments.

Building Leases

Current Comment

The Town owns various buildings that are leased to third party entities. We noted that one of the leases expired during fiscal year 2012 and that the renewal of the lease was verbally agreed upon with the prior Town Administrator via an email. The terms of the contract were materially changed and the monthly rent reduced. Per conversations with personnel within the Town Administrator's Office, there are only ideas as to why the rent was reduced and the terms of the agreement changed. There is no written contract between the Town and an entity named New Directions.

Recommendation

We recommend that the Town Administrator work with New Directions, understanding the assumed terms of the lease agreement with the Town. Determine if this is in the best interest of the Town and move to formalize an agreement in writing.

Tax Recapitulation Sheet

Current Comment

While reviewing the Town's Tax Recapitulation Sheet, we noted a local estimated receipt for payment in lieu of taxes (PILOT) in the amount of \$50,000. In reviewing the Town's revenue ledger we could not isolate any revenue account related to payment in lieu of tax receipts.

In discussing this with the Town, we were told that the Town currently has no payment in lieu of tax agreements and does not know what the estimated receipt relates to. Although, the prior administration was responsible for the completion of the fiscal year 2012 tax rate recapitulation sheet, documentation supporting how amounts reported were arrived at should be maintained.

Because this appears to have been used to fill a gap in balancing the budget, the Town's certified free cash is actually \$50,000 lower than it should have been as a result of no PILOT revenue was to be received.

Recommendation

We recommend that all amounts used to complete the tax rate recapitulation sheet are fully supported and that the supporting documentation be maintained at least until the Town's annual audit is completed.

Accounting for Short-Term Debt

Current Comment

We noted that short term notes are being recorded as revenue in the capital projects fund. Under the Uniform Municipal Accounting System (UMAS), the entry to record short term notes is to increase cash and notes payable. Recognizing revenue on short term borrowings could result in inaccurate management decisions because fund balance is then overstated by the amount of the borrowings. Correcting entries have been recorded and provided to the Town Accountant's Office.

We also noted that the correct method of recording short-term debt may be misunderstood. Upon receiving the Town's general ledger, there was a debit BAN balance in the general fund and a credit balance equal to double the actual outstanding BAN balance in the capital projects fund. BAN's should not be recorded within the general fund and should be recorded as noted above within the applicable capital project fund.

Recommendation

We recommend that the Town Accountant's Office record short term notes according to UMAS accounting and also assure that the activity is being posted to the correct account.

Ambulance Receivables

Current Comment

The Town's outstanding ambulance receivables were approximately \$647,000 at the end of fiscal year 2012. Of this amount, approximately \$431,000 was greater than 180 days old, and has been appropriately been reflected in the financial statements as an allowance for uncollectible. The Town utilizes the services of a third party vendor for ambulance billing and collections and does not have a formal process for reviewing uncollected balances and either pursuing collection remedies or formally writing them off.

Recommendation

We recommend that the Town implement policies related to the outstanding ambulance receivables and develop a policy that addresses additional collection processes available and develop a policy related to formally writing off the balances that are deemed uncollectible.