

TOWN OF IPSWICH, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2012

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To the Honorable Board of Selectmen
Town of Ipswich, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Ipswich, Massachusetts, as of and for the fiscal 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 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.

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 was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

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 suggestions concerning those matters.

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

We will review the status of these comments 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 Ipswich, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties.

Powers & Sullivan LLC

February 12, 2013

TOWN OF IPSWICH, MASSACHUSETTS

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Previous Year Comments

Old Accounts Receivable Balances

Prior Comment

In prior years the Town's general ledger reported over \$30,000 in old (fiscal year 1999 and prior) outstanding personal property tax accounts receivable and over \$4,000 in old boat excise tax accounts receivable. We were unable to review the detail associated with these receivables since the detail is contained in software that is no longer accessible by the Town.

Proper internal controls require detailed support to be maintained for all balances recorded on the general ledger.

For several years it was recommended that the Treasurer/Collector work with the old software vendor to access the detail of the aforementioned old accounts receivable balances, that the old accounts receivable balances be reconciled with the balances recorded on the general ledger, and that the Treasurer/Collector follow the statutory abatement process to write-off the old accounts receivable balances that are deemed uncollectible.

Status – Resolved

During fiscal year 2012, the Town abated the old accounts receivable balances that were determined to be uncollectible.

Adopt a Cash and Investment Policy

Prior Comment

Accounting standards have highlighted the need for governmental entities to consider adopting cash and investment policies that take into account custodial, credit and interest rate risk. Such policies establish guidelines for matters such as 1) the types of banks the Town should have deposits with; 2) the maximum period that an investment can be held and; 3) the highest concentration that the Town can have in any one investment type or issuer.

In the prior year, we recommended the Town develop and formalize a cash and investment policy that includes both long and short-term objectives.

Status – Resolved

The Board of Selectmen adopted a cash and investment policy during fiscal year 2012.

Student Activity Accounts

Prior Comment

The Town is required to maintain its student activity funds in a manner that is mandated by Massachusetts General Law, Chapter 71, Section 47 of the Acts of 1996. The law allows the school committee of a city, town or district to authorize a school principal to receive money in connection with the conduct of certain student activities and to deposit such money, with the municipal or regional school district treasurer, into an interest bearing bank account (the Student Activity Agency Account), established by the vote of the school committee to be used for the express purpose of conducting student activities. Interest earned by the Student Activity Agency Account shall be retained by the fund and the school committee shall determine for what purpose such earnings may be used. In addition to the student Activity Agency Account, the school committee may authorize the municipal or regional school district treasurer to establish a checking account (the Student Activity Checking Account), to be operated and controlled by a school principal and from which the funds may be expended exclusively for student activity purposes for the student activities authorized by the school committee. Such account shall be used for expenditures only and funds received for student activities may not be deposited directly into such account. Chapter 71, Section 47 also states that there should be an annual audit of the student activity funds and that each audit be conducted in accordance with procedures as agreed upon between the school committee and auditor based upon guidelines issued by the department of education. The Association of School Business Officials (ASBO) has a publication, "Internal Audit Guide for Student Activity Funds", that provides guidance in establishing procedures.

In reviewing the Town's policies and procedures for maintaining student activity accounts, we noted the several areas in which the processes could be improved:

- Funds held from graduated classes are not closed out in accordance with School Committee policies. At the time of our visit, Ipswich High School was holding funds from graduated classes from 2000 through 2008 totaling over \$19,000. Because graduates are no longer students, monies for classes that have graduated cannot legally be kept in student activity accounts. The Ipswich School Committee's policy addresses the disposition of graduated account balances by directing that all remaining funds be disbursed for a class designated purpose or released for other student activity use. This policy has not been consistently applied, and there have been varying opinions on the acceptable methods for closing out the unspent balances.
- Student Activity Funds have been used to account for Athletic Fee receipts. High School athletic fee receipts were periodically deposited into the High School Student Activity Account and testing of expenditures charged against these fees showed that several refunds of athletic fees were processed through this account. Athletic fees should be accounted for in the Town's athletic fee revolving fund, where expenditures are required to be made through the Town's warrant process. Accounting for athletic fees within the student activity accounts circumvents this control process.
- Individual activity balances are not reconciled with the activity advisors on a consistent basis. The High School Student Activity accounts are comprised of approximately 70 different student activities. The current practice is to provide a detailed report or balance to the individual activity advisor only as requested. By not formally requiring periodic reconciliations between the student activity office and the individual activity advisors, the School is at risk of not identifying or correcting errors or inconsistencies timely.

- Funds collected were not deposited or reported to the Town timely. The School Committee's policy specifies that funds collected from student activities should be deposited the next business day and that receipts must be reported to the Town Treasurer at least once per week during the school year. We noted that this policy was not consistently adhered to. In many cases funds were not being deposited timely and turnovers to the Town Treasurer are not consistently prepared on a weekly basis. We noted cases where funds were collected by teachers/advisors and were held over the summer and deposited during the start of the next school year. Holding funds increases the risk of loss as funds not deposited can be lost or stolen and the loss may not be easily detected. Also, not reporting deposits to the Town Treasurer timely can complicate the reconciliation process and prevents accurate financial information from being recorded in the Town's ledgers timely.
- Student Activity Records should be maintained in a more efficient manner. Student Activity Funds were maintained by the different schools in a variety of formats ranging from the use of Quicken Software to various spreadsheets. We noted that the version of Software being utilized was an older version that does not have many newer attributes that would be useful in both reconciling account activity and in reporting. For example, the schools were not able to export reports from the Software to Excel. To compensate for deficiencies in the account set-up and the lack of updated Software, the schools maintain various additional records and in some cases record the same transactions more than once to maintain adequate records. The schools would benefit from a standardized set-up of the student activity funds, additional training and updated software as it would increase efficiencies and it would promote more standardized and timely reporting.
- The Student Activity Accounts had not been audited by an outside audit firm in the last two years. In compliance with the MGL, the School Committee policies require an annual internal review of the Student Activity Accounts as well as an audit by an independent auditor every other year. The Student Activity Accounts had not had a formal independent audit in several years.

Status - Resolved

Graduated Class Funds - Commencing with the class of 2012, a copy of the school committee policy has been reviewed with the senior class advisors so that they are made aware of that any unspent funds will revert to an undesignated student activity account in accordance with the school committee policy. For older class accounts that still have funds remaining, the school has decided to allow the classes to use their remaining money to pay invoices associated with their next class reunion. Any money left on account following the event will be rolled into the undesignated student activity account.

Athletic Fees - The practice of accounting for athletic fee receipts within the student activity account has been discontinued. All athletic fees are now accounted for within the Town's athletic fee revolving fund.

Account Reconciliation with Advisors - The Schools will now send an email to all account advisors four times a year indicating the balance of the account and recent transaction activity. The email response from the account advisor will serve as support that reconciliation has occurred and it will be maintained on file.

Timeliness of turnovers - The importance of timely deposits has been reiterated and staff members have been instructed to make sure turnovers to the Town Treasurer are consistently prepared on a weekly basis.

Upgrading Software – The schools are in the process of upgrading to the latest version of Quicken. Once this is completed, the school department plans to provide a training on a uniform method for maintaining the accounts.

Independent Audits - The Ipswich Middle School student activity funds were audited during fiscal year 2012, and the school department is on schedule to complete audits of the other schools on a tiered basis.

Current Year Comments

Feoffees of the Grammar School in the Town of Ipswich Trust

Comment

Pursuant to a court judgment in December, 2011, a new trust arrangement named “the Feoffees of the Grammar School in the Town of Ipswich Trust” will become effective in fiscal year 2013. The new trust is defined as a “public body and an agency of the Town of Ipswich” and has several distribution, accounting and reporting requirements that will impact the Town and funds available to the Town’s school department. Given the significance of the activity and the new requirements of the trust, we recommend that the Town implement processes to monitor and ensure compliance.

Examples of areas where compliance should be monitored include the following:

- (1) The Town should implement a process to ensure that the Town receives the initial required distributions of funds:
 - \$2.4 million in “use and occupancy funds” plus interest is distributable to the Ipswich School Committee in fiscal year 2013 (1/3), 2014 (1/2 of remaining), and 2015 (remaining).
 - Monthly distributions of rental income during the “interim period” to the School Committee.
 - The establishment of a permanent endowment (initial principal) to provide annual distributions beginning in fiscal year 2016. The principal is required to remain intact.

- (2) The Town should implement a process to ensure that the Town receives the required audit reports and annual reports from the trust:
 - The trust is required to have an audit at the end of the interim period.
 - The trust is required to have an annual audit thereafter.
 - The trust is required to submit an annual report to the Town of Ipswich.
 - The trust is required to establish adequate controls and safeguards.

- (3) The Trust must be allowed to use Town of Ipswich buildings and Town Administrative functions such as posting minutes and meetings.

- (4) Based on the nature and significance of their relationship with the Town, the Town must consider and document the reasons whether or not the new Feoffees should be considered a component unit (blended or discretely presented) of the Town for financial reporting purposes. This documentation should include consideration as to whether or not there is a significant financial benefit/burden relationship and whether or not elected officials appoint a voting majority of the governing body of the new entity. Based on this determination, the Town must also coordinate the timing of audit and financial reporting between the Trust and the Town.

- (5) The Town must determine how funds received from the new trust should be treated and reported at the Town and how the funds may be expended.

Recommendations

We recommend that the Town consider all of the requirements of the new Feoffees Trust and implement an internal process for monitoring compliance with the requirements of the new trust.

Management's Response

The Finance Director and Director of Finance and Operations will work together with the School Committee, Selectmen, and Finance Committee to implement an internal process for monitoring compliance with the requirements of the new Feoffees Trust.

Support for Payment of Invoices

Comment

The Finance Department does not consistently receive complete bills with requests for payment or copies of all executed contracts from the Municipal Light Department. As a result, the Finance Department may not be able to fulfill their statutory duty of determining if payments are fraudulent, illegal or excessive before they are paid as required by Massachusetts General Law Chapter 164, Section 56. The lack of sufficient supporting documentation can result in delayed payment processing and puts the Town at risk of processing payments that are potentially fraudulent, illegal or excessive.

Recommendation

We recommend that the Town adopt policies that will clarify the process for providing contracts and adequate supporting bills to the Town's Finance Department that will bridge the independence of the operation of the Municipal Light Department with the statutory responsibilities of the Town's Finance Department.

Management's Response

A policy will be written and presented for adoption to the Selectmen and Electric Light Commissioners clarifying the process for providing contracts and adequate supporting documentation for the payment of bills that will bridge the independence of the operation of the Municipal Light Department with the statutory responsibilities of the Town Accountant and the Finance Department. This policy should alleviate any future conflict over interpretation of the Statutes.