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**TOWN OF IPSWICH, MASSACHUSETTS**

**MANAGEMENT LETTER**

**JUNE 30, 2009**





Certified Public Accountants

**SULLIVAN, ROGERS & COMPANY, LLC**

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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 Town of Ipswich, Massachusetts (Town) as of and for the year ended June 30, 2009, 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.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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. Our comments and recommendations concerning those matters are summarized in the memorandum that accompanies this letter. This letter does not affect our report dated November 30, 2009, 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 Audit Committee, 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 black ink that reads "Sullivan, Rogers &amp; Company, LLC". The signature is written in a cursive, flowing style.

November 30, 2009

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TOWN OF IPSWICH, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2009

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## Comments and Recommendations

### Old Accounts Receivable Balances

#### Comment

The Town's general ledger is reporting approximately \$30,800 in old (fiscal year 1999 and prior) outstanding personal property taxes accounts receivable and approximately \$4,200 in old boat excise taxes 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.

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

#### Recommendation

We recommend that the Treasurer/Collector work with the old software vendor to access the detail of the aforementioned old accounts receivable balances.

We recommend that the old accounts receivable balances be reconciled with the balances recorded on the general ledger.

We recommend the Treasurer/Collector follow the statutory abatement process to write-off the old accounts receivable balances that are deemed uncollectible.

#### Management's Response

The auditors identified old personal property and boat excise receivables that were not maintained in MUNIS and did not have any detail associated with them. The auditors requested that research be completed to try to identify the detail.

At this time, 90% of the detail of the old receivables has been identified by the Deputy Collector. The remaining 10% of detail may or may not be available through the software vendor used prior to 2003. The Town does not have a support contract with the old software vendor, and it would not be cost effective to pay a fee to access the old software.

The auditors also recommended that the Treasurer/Collector follow statutory abatement processes to write-off the old receivables. On November 9, 2009 the Treasurer/Collector met with the Board of Assessors to request abatements for all of our old receivables. These receivables will be abated as soon as possible.

## **Allowance for Uncollectible Accounts Receivable**

### Comment

For financial reporting purposes, the Town records allowances for uncollectible accounts receivable (related to personal property taxes, motor vehicle excise taxes and departmental, such as police and fire details) based on historical trends and specific account analysis. However, the Town does not have a formal policy for calculating its allowance for uncollectible accounts receivable. A formal policy would strengthen internal controls over financial reporting.

### Recommendation

We recommend the Town implement a formal policy for calculating its allowance for uncollectible accounts receivable for financial reporting.

### Management's Response

Based on historical analysis, the Treasurer/Collector has determined that all excise tax receivables (MVE & Boat) greater than four years old are uncollectible. After four years, the balances will be written off for financial reporting purposes. However, the receivable will continue be recorded on the general ledger and will still exist in the Treasurer's office and all collection procedures allowed by law will continue.

Personal property tax receivables older than four years old will be deemed uncollectible. All uncollectible records will be forwarded to the Deputy Collector for additional procedures permitted by law. They will be written off for financial reporting purposes but will remain on the general ledger and all attempts to collect the receivables will continue.

Other departmental receivables (police and fire details) will be reviewed by the appropriate department to determine if they are uncollectible. All means available for collection, such as a collection agency, will be utilized before a final determination is made to write of the balance.

## **Extended Day Program**

### Comment

Our prior year Management Letter identified several deficiencies related to the School Department's (Department) Extended Day Program (Program) systems of internal control. At June 30, 2009, the following deficiency still exists:

1. The Program is charged for certain indirect costs (e.g., electricity, heating oil and water/sewer). However, there is no methodology and calculation to support the indirect amounts charged to the Program.

### Recommendation

We recommend that the School Committee develop a reasonable method to allocate indirect costs to the Program.

### Management's Response

A method to allocate indirect costs has been prepared and will be implemented upon review of the Policy Subcommittee and acceptance of the School Committee.



## **Snow and Ice**

### Comment

Our prior year Management Letter identified several deficiencies related to the system of internal control surrounding the accounting records of the Town's snow and ice removal program. At June 30, 2009, the following deficiency still exists:

1. There is no formal documentation that details the initiation and processing of financial transactions of the snow and ice removal program. Such a manual would define, improve and standardize procedures and eliminate inconsistencies in the processes surrounding the financial activities of the snow and ice removal program. It would also enhance the ability to train and supervise new staff in the event of employee turnover.

### Recommendation

We recommend the DPW prepare formal documentation of the financial policies and procedures related to the snow and ice removal program. This documentation should not duplicate the Finance and Purchasing departments written procedures.

### Management's Response

Written detailed financial policies and procedures will be documented for snow and ice operations by December 4, 2009.

## Fire Details

### Comment

Our prior years' (2007 and 2008) Management Letters identified deficiencies in the systems of internal control related to fire details. As of June 30, 2009, the following deficiencies still exist:

1. Fire detail time cards (which identify the vendor, location, employee name, date, time, etc.) are not signed by a supervisor of the fire department. Proper internal controls require the review and approval (supervisor signature) of time cards. This control is crucial to the operation of an internal payroll function.
2. "Schedule of Departmental Payments to Treasurer" (turnover) related to fire details do not contain evidence of a supervisory review (i.e., initials, signature, etc.) of the turnover. Proper internal controls require the review and approval (sign off) of turnovers to provide safeguards over cash receipts.
3. Although hard copies of payroll reports were maintained on file, we identified that many of the reports did not include a signature indicating the payroll was reviewed and approved by supervisory personnel. Proper internal controls require documentation of the review and approval (sign off) of payroll at the department level.

### Recommendation

We recommend that all fire detail time cards be reviewed and signed off by a supervisor of the fire department.

We recommend that turnovers be reviewed and signed off by the appropriate supervisor of the fire department prior to submission to the Treasurer's office.

We recommend that all payroll reports maintained on file include documentation (i.e., sign off) of supervisory review and approval.

### Management's Response

1. Fire detail cards have been signed for nearly 3 months now and will continue to be approved and signed individually by the Chief or an authorized representative. Lt. Smith, as the operational budget officer, is fully aware of this. Note that the detail system was substantially overhauled in writing nearly a year ago in response to the need for improved accountability identified through the previous audit.
2. Schedule of Payments to Treasurer have been approved and signed off consistently for nearly three months and will continue to do so. Lt. Smith is fully aware of this.
3. The department will document the supervisory review and approval of all payroll reports maintained on file.

## 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 has attended conferences where GASB Statement No. 54 has been thoroughly discussed and will attend additional conferences as needed to prepare for the change in requirements for fiscal year 2011.

The Finance Director will work with our auditors to make sure the changes happen in a timely and appropriate manner, and will work with Munis to implement any necessary changes in our financial system.