

TOWN OF IPSWICH, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2010



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To the Honorable Board of Selectmen
Town of Ipswich, Massachusetts

In planning and performing our audit of the basic financial statements of the Town of Ipswich, Massachusetts, as of and for the fiscal year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting 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.

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 comment 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 it

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

November 16, 2010

TOWN OF IPSWICH, MASSACHUSETTS

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TABLE OF CONTENTS

	PAGE
<i>Previous Year's Comments</i>	1
Old Accounts Receivable Balances	2
Allowance for Uncollectible Accounts Receivable.....	2
Extended Day Program	3
Snow and Ice.....	3
Fire Details	4
<i>Current Year Comment</i>	5
Adopt a Cash and Investment Policy	6
<i>Informational Comment</i>	7
Government Accounting Standards Board (GASB) Statement #54.....	8

Previous Year's Comments

Old Accounts Receivable Balances

Prior 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. The prior auditor was 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.

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

Status – Unresolved. At the end of fiscal year 2010, the Town's outstanding accounts receivable balances for fiscal years 1999 and prior were approximately \$30,500 for personal property taxes and \$4,200 for boat excise taxes. The Town has been unable to provide detail to support these balances.

Allowance for Uncollectible Accounts Receivable

Prior 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 did not have a formal policy for calculating its allowance for uncollectible accounts receivable. A formal policy strengthens internal controls over financial reporting.

The prior auditor recommended the Town implement a formal policy for calculating its allowance for uncollectible accounts receivable for financial reporting.

Status – Resolved. The Town has implemented a formal policy for calculating its allowance for uncollectible for accounts receivable.

Extended Day Program

Prior Comment

The prior year Management Letter identified several deficiencies related to the School Department's (Department) Extended Day Program (Program) system of internal control. The prior auditor reported the following deficiency:

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.

The prior auditor recommended the School Committee develop a reasonable method to allocate indirect costs to the Program.

Status – Resolved. The School Committee has implemented a reasonable methodology for allocating indirect costs to the Extended Day Program.

Snow and Ice

Prior Comment

The prior auditor had identified several deficiencies related to the system of internal control surrounding the accounting records of the Town's snow and ice removal programs. At June 30, 2009, the following deficiency continued to exist:

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.

The prior auditor recommended the DPW prepare formal documentation of the financial policies and procedures related to the snow and ice removal programs without duplicating the Finance and Purchasing departments' written procedures.

Status – Resolved. The DPW has documented formal policies and procedures relating to the snow and ice removal program.

Fire Details

Prior Comment

The prior years' (2007 through 2009) Management Letters identified deficiencies in the system of internal control related to fire details. These deficiencies related to the following:

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 are maintained on file, the prior auditor 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.

The prior auditor recommended all fire detail time cards be reviewed and signed off by a supervisor of the fire department, turnovers be reviewed and signed off by the appropriate supervisor of the fire department prior to submission to the Treasurer's office, and all payroll reports maintained on file include documentation (i.e., sign off) of supervisor review and approval.

Status – Resolved. The Town has implemented internal control procedures addressing this comment.

Current Year Comment

Adopt a Cash and Investment Policy

Comment

New 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 the Town can have in any one investment type or issuer.

Recommendation

We recommend that the Town develop and formalize a cash and investment policy that includes both long and short-term objectives.

Management's Response

The Treasurer/Collector will be working with the Finance Director, the Trust Fund Commission and the Library Trustees to finalize an investment policy to present to the Board of Selectmen in the spring of 2011. Once the Investment Policy is adopted by the Board of Selectmen, the Treasurer will forward a copy of the Investment Policy to all financial companies in which the Town does business.

Informational Comment

Government Accounting Standards Board (GASB) Statement #54

Comment

In February 2009, the GASB issued Statement #54, *Fund Balance Reporting and Government Fund Type Definitions*, which is required to be implemented in fiscal year 2011. 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 by clarifying 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 is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. 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.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are 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 is required.

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

The definitions of the general fund, special revenue fund types, capital projects fund types, and permanent fund types 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.

Recommendation

As it appears that this GASB Statement will significantly impact the fund balance classifications presently reported, we recommend that management begin to study and evaluate these changes for financial statement reporting and disclosure purposes, and to formulate plans to be used in explaining these changes to interested parties within the Town and to the external users of the Town's financial statements.