

TOWN OF IPSWICH, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2011



100 Quannapowitt Parkway
Suite 101
Wakefield, MA 01880
T. 781-914-1700
F. 781-914-1701
www.powersandsullivan.com

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, 2011, 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.

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 it.

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

December 8, 2011

TOWN OF IPSWICH, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2011

TABLE OF CONTENTS

	PAGE
<i>Previous Year Comments</i>	1
Old Accounts Receivable Balances	2
Adopt a Cash and Investment Policy	2
Government Accounting Standards Board (GASB) Statement #54.....	3
<i>Current Year Comments</i>	4
Student Activity Accounts	5

Previous Year Comments

Old Accounts Receivable Balances

Prior Comment

The Town's general ledger is reporting approximately \$30,500 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.

For several years it has been 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 – Unresolved

The Town has been unable to provide detail to support these balances and has not taken action to abate the uncollectible amounts.

Management's Response

The Treasurer has reviewed the old receivable balances for boat and motor vehicle excise and determined, with the agreement of the Board of Assessors, that they are uncollectible. The boat and motor vehicle uncollectible balances will be abated during fiscal year 2012. The Treasurer is in the process of reviewing old personal property balances to determine which accounts can be abated in fiscal year 2012 without causing a deficit. The remaining balance of the uncollectible accounts will be abated during fiscal year 2013 when an amount will be reserved under the levy limit to offset the deficit created by the abatements. The Town will then be in a position to raise that deficit on the recap.

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 – Unresolved

The Treasurer has taken the initial steps by drafting an investment policy to be presented to the Board of Selectmen for review and approval. We recommend that the Town complete the process by formally adopting an investment policy.

Management's Response

The Trust Fund Commission was given a copy of the draft Investment Policy. They created a sub-committee to review the draft policy and make suggested changes. A Trust Fund Commission meeting has been set to discuss the recommended changes to the draft Investment Policy. Once changes have been made, the draft policy will be provided to the Library Trust Fund Commissioners for their review. Upon the completion of the Library Trust Fund Commissioner's review, the draft Investment Policy will be sent to the Selectmen for approval.

Government Accounting Standards Board (GASB) Statement #54

Prior Comment

During fiscal year 2011, the Town was required to implement GASB Statement #54, *Fund Balance Reporting and Government 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 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.

In the prior year we recommended the Town 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.

Current Status – Resolved

During fiscal year 2011, the Town implemented this new GASB which is represented in the Town's financial statements.

Current Year Comments

Student Activity Accounts

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 current policies and procedures for maintaining student activity accounts, we noted the following areas in which the process can 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 are periodically deposited into the High School Student Activity Account and testing of expenditures charged against these fees showed that several refunds of athletic fees are 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 are 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 is not consistently adhered to. In many cases funds are 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 are 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 is 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 have 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 have not had a formal independent audit in several years.

Recommendations

We recommend that the School Committee policy specify acceptable methods for closing class accounts and that the policy be consistently applied annually and that it be communicated in advance to class officers to avoid any misunderstanding regarding the disposition of unspent class balances after graduation.

We recommend that the Town discontinue the practice of accounting for athletic fee receipts within the student activity accounts and that all athletic fees be accounted for within the Town's athletic fee revolving fund.

We recommend that the balances of each activity be reconciled with the advisors on a quarterly basis at a minimum. As support that this reconciliation has occurred, we recommend that the Student Activities Office retain a signed reconciliation form.

We recommend that procedures be implemented to comply with the School Committee's policies regarding the timeliness of depositing funds in the bank and of reporting receipts to the Town Treasurer.

We recommend that the school consider upgrading the Software currently used to account for Student Activities and that the accounts are set-up in a uniform manner that will promote efficiencies, account reconciliations, and more accurate and timely reporting.

We recommend that the School comply with the School Committee policy of having the Student Activity funds audited by an independent auditing firm every two years.

Management's Response

Closing out old class accounts:

The current School Committee policy does specify acceptable methods for closing class accounts. It reads, "Once a class has graduated, its subsidiary account no longer supports 'students' in a 'school' activity. The class account must be closed as soon as all final checks have cleared and the balance, if any, must be disbursed for a class designated purpose or released for other student activity use." While the policy is clear on how graduated class funds should be handled, the procedure has not been communicated clearly to class advisors and/or class officers. Commencing with the class of 2012, a copy of the school committee policy will be reviewed with the senior class advisors so that they are made aware of how remaining funds will be handled after all final checks have been cleared.

For older class accounts that still have money remaining, we will 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 account. Since these classes were not advised of the policy when active, they will be allowed this opportunity to spend out their accounts on a class sponsored event.

Accounting for athletic fee receipts within the student activity accounts:

Following this audit, the practice of accounting for athletic fee receipts within the student activity account will be discontinued. All athletic fees will be accounted for within the Town's athletic fee revolving fund.

Reconciling the balances of each activity with the advisors:

The Schools will 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.

Compliance with the School Committee's policies regarding the timeliness of depositing funds in the bank and of reporting receipts to the Town Treasurer:

A copy of this management letter will be reviewed with the building principals and the staff members who are responsible for reconciling the Student Activities Accounts. At that time, the importance of timely deposits will be reiterated and staff members will be instructed to make sure turnovers to the Town Treasurer are consistently prepared on a weekly basis.

Upgrading the software currently used to account for Student Activities and setting up accounts in a uniform manner that will promote efficiencies, account reconciliations, and more accurate and timely reporting:

Upon the advice of the auditors, we will upgrade to the latest version of Quicken at each of the schools. Training will be provided and a uniform method for maintaining the accounts will be implemented. It is expected that this will occur after the close of this school year.

Compliance with the School Committee policy of having the Student Activity funds audited by an independent auditing firm every two years:

The management report that provides these recommendations was performed as part of the Town's annual site visit. While this type of audit is beneficial, it doesn't provide an auditing of the student activities account near the level of a formal independent audit. A formal audit takes a comprehensive look at the financial transactions of the accounts. It takes two to three days to perform and includes

reconciliations with the general ledger and invoice testing. The last formal audit was performed in 2008. It is expected that a formal independent audit will be scheduled for the student activities account for later this year. From this point forward, we will schedule a formal audit of the student activities accounts every two years in accordance with school committee policy.