

COUNTY OF BARNSTABLE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2007



Certified Public Accountants

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To the Assembly of Delegates and County Commissioners
County of Barnstable, Massachusetts

In planning and performing our audit of the financial statements of the County of Barnstable, Massachusetts (County) as of and for the year ended June 30, 2007, 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 County'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 County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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 February 4, 2008 on the financial statements of the County.

The County'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 and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with County personnel, and we 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.

A handwritten signature in black ink that reads "Sullivan, Rogers & Company, LLC". The signature is stylized and cursive.

February 4, 2008

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Comments and Recommendations

Reconciliation of Septic Loan Activity

Comment

The County issues loans to residents of the County to help finance repairs and replacements of septic systems. The following is a summary of the process (including the accounting for the related financial transactions):

- Septic system projects are approved by the County.
- The County pays vendors for approved septic system projects. These payments are recorded to an expenditure account in the County's general ledger.
- Once the projects are completed and inspected, the final loan amounts and the related amortization schedules are established.
- Once the loan amounts and amortization schedules are established, the loans are recorded in Microsoft Access (Access), which is used by the County to maintain detailed records of the outstanding loan balances (i.e., loans receivable).
- On a quarterly basis, the new loans issued (as recorded in Access) are recorded to a loan receivable control account in the general ledger.
- As loan payments from residents are received by the County, the loan receivable is reduced in both the general ledger and in Access.
- On a quarterly basis, loans receivable in the general ledger is reconciled to a detailed loans receivable list in Access.

Based on the process described above, there are timing differences in the disbursements made to vendors (as recorded in the general ledger) versus loans issued to residents (as recorded in Access). For example, if the County pays \$10,000 to a vendor, but the project has yet to be completed and approved, the loan associated with the project would not yet be recorded in Access.

Therefore, reconciliations of vendor disbursements recorded in the general ledger to loans recorded in Access should be performed in order to provide assurance that general ledger activity and loans receivable balances are properly stated. We identified that these reconciliations are not being performed.

Recommendation

We recommend that procedures be implemented to reconcile vendor disbursements recorded in the general ledger to loans recorded in Access on a quarterly basis.

Management's Response

The County will determine the cost-benefit factor of reconciling vendor disbursements recorded in the general ledger to loans recorded in Access and will reconcile in the most cost effective manner.

Overhead Reimbursements to the Cape Cod Commission Fund

Comment

The Cape Cod Commission (CCC) operating fund is reimbursed by the general fund for overhead costs incurred on projects that are appropriated in the general fund. We identified that the overhead cost reimbursements are not being budgeted for and recorded annually. During fiscal year 2007, the County transferred a total of \$318,845 to the CCC operating fund for overhead reimbursements related to the fiscal years ended 2002, 2003, 2004, 2005 and 2006.

The current process overstates the fund balance of the general fund and understates the fund balance of the CCC operating fund at the end of the fiscal year.

Recommendation

We recommend that the County budget and record an overhead reimbursement transfer from the general fund to the CCC operating fund each fiscal year. Subsequent to year-end, the County should re-calculate the overhead reimbursement based on actual data and adjust the actual transfer accordingly.

Management's Response

The County will record overhead reimbursement transfers from the general fund to the Cape Cod Commission operating fund each fiscal year.

Sheriff Off-Duty Detail Accounts Receivable

Comment

We identified the following deficiencies related to the Sheriff's off-duty detail accounts receivable:

- Amounts owed from vendors for off-duty details are not forwarded to the County Administration office and recorded on the general ledger. As a result, monthly reconciliations of outstanding accounts receivable cannot be performed between the Sheriff's office and the general ledger. Proper internal controls require all accounts receivable to be accounted for and recorded on the general ledger.
- The Sheriff's office does not have policies and procedures related to writing off and calculating an allowance for uncollectible off-duty detail accounts receivable. We identified that approximately half (approximately \$60,000) of the Sheriff's off-duty detail accounts receivable list at June 30, 2007, consisted of amounts owed for more than one year, including amounts that date back as far as April 2001. Proper internal controls over financial reporting require that an allowance for uncollectible accounts receivable be calculated and reported. In addition, the off-duty detail fund may have a permanent deficit after the uncollectible accounts receivable are taken into account.

Recommendation

We recommend that the Sheriff's office:

- Implement a process whereby all billing and collection activity related to off-duty details is forwarded to the County Administration office (monthly) so a receivable can be recorded and maintained on the general ledger.
- Develop policies and procedures related to writing off and calculating an allowance for uncollectible off-duty detail accounts receivable. The supporting documents and calculations related to these policies should be forwarded to the County Administration office for financial reporting purposes, and retained by the Sheriff's office as a permanent record.
- Ascertain the amount of collectible outstanding receivables that exist in the off-duty details fund and determine if a permanent, unfunded deficit exists. If an unfunded deficit exists, appropriate corrective action must be taken to fund the deficit.

Management's Response

Sheriff's Office

The Barnstable County Sheriff's Office has incorporated the recommendations of Sullivan, Rogers & Company, LLC relative to paid details into its official departmental policies and procedures. Generally accepted accounting principles have been implemented with respect to this account and copies of all relative paperwork will be submitted to the County Finance department for recording in the general ledger.

County Administration

The County will request the reconciliations and calculations for an allowance for uncollectible accounts receivable. The County will also request the permanent deficit amount, and will subsidize the off-duty details fund from another Sheriff's office special revenue fund.

Accounting and Financial Reporting Requirements for Other Post-Employment Benefits (OPEB)

Comment

The County provides post-employment benefits (i.e., health insurance) to its qualified retirees. Consistent with other Massachusetts municipalities, the County's OPEB expenditures are financed on a pay-as-you-go-basis from annual appropriations and the County's current financial statements do not report the financial impact of OPEB until the benefits are paid. During fiscal year 2007, the County had approximately 250 retirees that received such benefits. For the year ended June 30, 2007, the cost of these benefits totaled approximately \$1,382,000.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This Statement establishes the standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expense/expenditures and related assets, liabilities, note disclosures and required supplementary information in the audited financial statements of state and local governments. As part of determining OPEB amounts and disclosures, the Statement requires, at a minimum, a biannual OPEB actuarial valuation.

Implementation of this statement will improve financial reporting by:

- Recognizing the cost of benefits in periods when the related services are received by the employer
- Providing information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded
- Providing information useful in assessing potential demands on the employer's future cash flows.

The County's required implementation date of GASB Statement No. 45 is fiscal year 2009.

Recommendation

The County has had an OPEB actuarial valuation performed as of June 30, 2006. In order to implement GASB Statement No. 45 in fiscal year 2009, we recommend that the County obtain an actuarial valuation for OPEB as of June 30, 2008, and biannually thereafter.

Management's Response

The County will explore the option of having another OPEB actuarial valuation performed for June 30, 2008.