COUNTY OF BARNSTABLE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2010
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, 2010, 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. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated March 23, 2011, 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 should not be used by anyone other than these specified parties.

March 23, 2011
This page left intentionally blank.
COUNTY OF BARNSTABLE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2010

TABLE OF CONTENTS

Page

Comments and Recommendations.........................................................................................1
Dredge Enterprise Fund ........................................................................................................1
New Accounting and Financial Reporting Requirements for Fund Balances............................2
Comments and Recommendations

Dredge Enterprise Fund

Comment

As reported in the prior year Management Letter, the dredge enterprise fund is charged some indirect costs, such as pension appropriations. However, the indirect costs charged to the fund does not necessarily represent all indirect costs that could be charged to the fund, such as interdepartmental services (purchasing, accounting, payroll, etc.), audit fees, etc.

The Massachusetts Department of Revenue (DOR) issued an “Informational Guideline Release” (IGR 08-101) in April 2008 in which the DOR recommends that every governmental organization with an enterprise fund establish a written, internal policy regarding indirect cost allocation, to be reviewed annually. IGR 08-101 also recommends that local financial officials should understand and agree on what indirect costs are appropriated as part of the general fund operating budget and what percentage of these costs should be allocated to enterprise funds.

During fiscal year 2010, County management performed an analysis identifying some additional indirect costs that could be charged to the dredge enterprise fund. County management decided to pass on charging these additional indirect costs since they would have been minimal.

However, the County has yet to establish a formal written policy regarding indirect cost allocation in accordance with IGR 08-101. We believe it would be prudent for the County to comply with IGR 08-101 by establishing a formal written policy.

Recommendation

We recommend the County implement the recommendations of the DOR as identified in IGR 08-101 by establishing a formal written policy regarding indirect cost allocation, to be reviewed (and updated, if necessary) annually.

Management’s Response

The County will establish a formal written policy regarding indirect cost allocation in accordance with the Massachusetts Department of Revenue “Informational Guideline Release” (IGR 08-101) to be reviewed annually.
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 County's financial statements.

The County's required implementation date of GASB Statement No. 54 is fiscal year 2011.
Recommendation

We recommend that management continue to familiarize itself with GASB Statement No. 54 to prepare for its implementation. We would be pleased to assist the County with its preparation for implementing the new standards.

Management's Response

The Governmental Accounting Standards Board (GASB) Statement No. 54 was discussed briefly at a conference attended by the County. The County will continue to familiarize itself more with GASB Statement No. 54 to prepare for implementation.