COUNTY OF BARNSTABLE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2012
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, 2012, 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 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 a matter that is an opportunity for strengthening internal controls and operating efficiency. We also want to make you aware of a recently issued accounting standard that will significantly impact your financial statements in future years. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated February 27, 2013, 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.

February 27, 2013
## COUNTY OF BARNSTABLE, MASSACHUSETTS

### MANAGEMENT LETTER

### JUNE 30, 2012

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**Comment and Recommendation**

**Service Organization Controls**

**Comment**

The County, like many local governments in Massachusetts, engages third-party service providers (service organizations) to process certain financial transactions. In such instances, the related financial transactions are affected by the County’s internal controls and the controls employed by the service organization. Therefore, as part of its monitoring efforts to ensure that internal controls over financial reporting are effective and functioning as intended, County management must evaluate whether service organization controls are suitably designed and effective.

Furthermore, service organizations often have information regarding employees and customers that must be protected (e.g., social security numbers). Such controls generally relate to the security, availability, processing integrity, confidentiality or privacy of information. Therefore, as part of its monitoring efforts to ensure the privacy and protection of its employees and customers’ information, management must evaluate whether service organization controls are suitably designed and effective.

The most effective and efficient way for the County to accomplish its monitoring efforts is to obtain the appropriate Service Organization Control (SOC) reports from its third-party service providers.

There are two types of SOC reports that service auditors provide to service organizations for the benefit of their users, which are as follows:

- SOC 1 (previously SAS 70) reports – provide an opinion on controls at a service organization that are likely to be relevant to a user entity’s internal control over financial reporting
- SOC 2 reports – provide an opinion on controls at a service organization that are related to the American Institute of Certified Public Accountants (AICPA) Trust Service Principles, which are (1) security; (2) availability; (3) processing integrity; (4) confidentiality; and (5) privacy.

Service organizations should be engaging a service auditor to provide the appropriate SOC report(s) and should make the resulting report available to their customers (e.g., the County).

**Recommendation**

We recommend the County identify each service organization utilized and request the applicable SOC report (annually).

Because all service organizations are an extension of the County’s internal control, we recommend all service organization contracts include a requirement to obtain the appropriate SOC report (annually).

**Management’s Response**

The Finance Department will work with the Information Technology Department and other applicable departments to identify the County’s current third-party service providers. The County will request the applicable SOC reports annually from the providers. The County will also put a requirement to obtain the appropriate SOC reports annually in all service contracts.
Pension Accounting and Financial Reporting

Comment

In June of 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, which revises and establishes new financial reporting requirements for governments that provide pension benefits to its employees and retirees.

The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the County will be required to recognize its long-term obligation for pension benefits as a liability in its government-wide financial statements. The implementation of this Statement will also:

- More comprehensively measure the annual costs of pension benefits
- Place conditions on the use of the discount rate used to measure the projected benefit payments to their actuarial present value
- Require the use of the “entry age” actuarial cost allocation method, with each period’s service cost determined by a level percentage of pay (referred to as attribution method)
- Expand pension related note disclosures
- Expand pension related required supplementary information disclosures

The requirements of this Statement will improve the decision-usefulness of pension information in governmental financial statements and will enhance the comparability of pension information between governmental entities.

Given the significance of the pension fund liability, the financial reporting impact under the new standard will significantly affect the County’s financial statements.

It should be noted that the implementation of GASB Statement No. 68 is strictly a financial reporting standard and does not constitute a state or federal mandate regarding the funding of the net pension obligation.

The County’s required implementation date of GASB Statement No. 68 is fiscal year 2015.

Recommendation

We recommend management familiarize itself with GASB Statement No. 68 to prepare for its implementation.

Management’s Response

The County will familiarize itself with GASB Statement No. 68 to prepare for implementation by attending classes and/or seminars on the subject matter.