

TOWN OF UPTON, MASSACHUSETTS

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2011

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ROSELLI, CLARK & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

Board of Selectmen
Town of Upton
Upton, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Upton, Massachusetts, (the "Town") as of and for the 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 ("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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the Board of Selectman, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



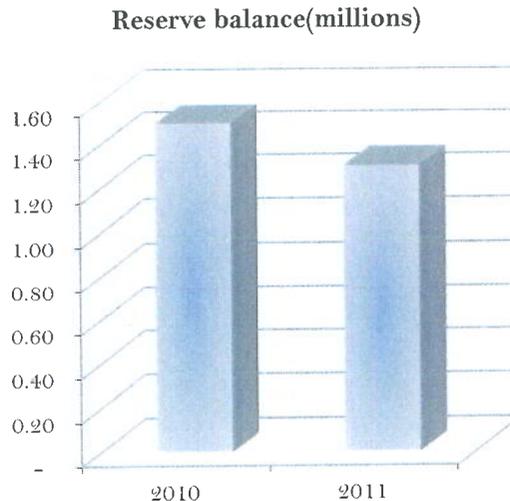
Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
December 21, 2011

I. OVERVIEW

As the United States continues to slowly emerge from the current economic recession, we caution all our towns to be as vigilant as ever in protecting reserves. Reserves buffer the Town against any hiccups to the budget process, such as lower than expected local receipts and reductions in state aid.

That being said, it has been very difficult for towns to operate in the inconsistent economic climate that has existed in the past three years, thus it has been very difficult for most towns to protect reserves. Ultimately, many towns have conceded to the pressure of maintaining services in lieu of building reserves and thus are facing the consequences of those decisions including downgrades to their credit ratings.

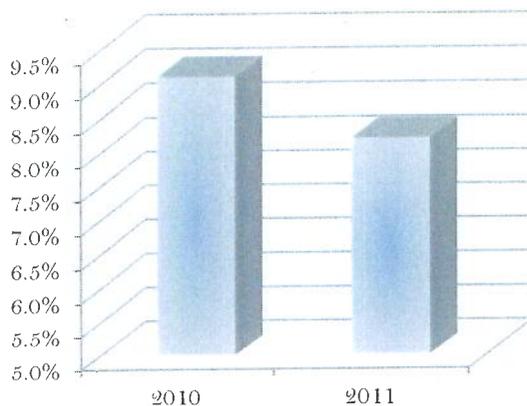
Despite these inconsistencies, the Town has managed to navigate through this economic instability in an effective manner. The following chart illustrates the Town's unassigned fund balance on a GAAP basis in each of the last two years:



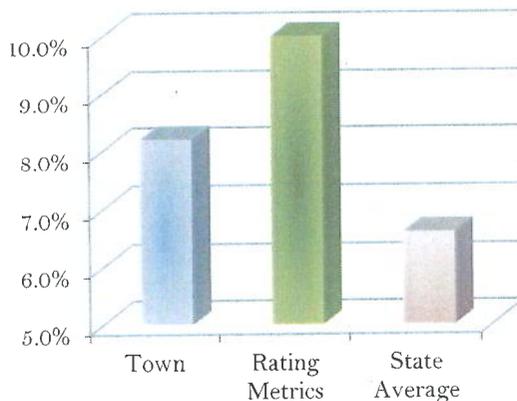
In doing so, the Town has demonstrated the ability to implement an effective budget process that not only meets annual operating needs, but also serves to maintain reserves at a level comfortable to meet satisfactory credit rating requirements in the 7% - 10% range. (*Optimum credit rating requirements are 10% and minimum are 5%.*)

This can be observed in the illustrations that follow:

Reserve as a percentage of Expenditures



Reserve as a percentage of Expenditures



The Town was recently rewarded for its efforts, when in its most recent investment grade was set at “AA”. This rating reflects stability, credit worthiness, and investment appeal.

We commend the Town for being aggressive in this regard and encourage the Town to continue to follow this protocol so its ultimate financial goals may be maintained.

The remainder of the report reflects informational items and findings and recommendations. We hope that Management will address the comments in the current year report and establish a plan to rectify the deficiencies over the next two fiscal years.

II. INFORMATIONAL ITEMS

Statement on Auditing Standards No. 115 – Audit Communications

The American Institute of Certified Public Accountants (“AICPA”) recently issued Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (“SAS 115”). SAS 115 establishes new standards and provides guidance on communicating matters related to an entity’s internal control over financial reporting identified in an audit of financial statements. In particular, SAS 115 provides guidance on evaluating the severity of deficiencies in internal control identified in an audit of financial statements in the following order:

1. Deficiency in internal control
2. Significant deficiency
3. Material weakness

Deficiencies identified as *significant deficiencies* or *material weaknesses* are required to be communicated to those charged with governance. *Deficiencies in internal control* are not required to be communicated; however we have chosen to also report these types of deficiencies in this report.

We did not deem any of the findings in this report to be categorized as either a significant deficiency or a material weakness.

Other Post-Employment Benefits

Governmental Accounting Standards Board (“GASB”) Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefit Plans Other Than Pension Plans* (“GASB 45”) has been effective for the past two fiscal years. GASB 45 requires the Town to record in its government-wide financial statements a liability for post-employment benefits such as medical benefits paid on behalf of the Town’s retirees.

The Town’s most recent valuation reflected a future liability of approximately \$4 million and while this is a future liability, its impact to current operations should not be ignored. This is especially important in light of the average employment age for Upton employees, which is approaching 50, thus possibly making this liability unmanageable in 10 years.

To date, only a few communities have been able to fully fund the current required contributions that are actuarially calculated; some have begun to set funds aside for these future cash outlays. There is a sentiment that these towns are being viewed as more fiscally responsible than those who ignore the liability completely by credit agencies.

While the impact of this future liability is in its infancy in terms of the impact on the Town’s overall credit rating, the rating bureaus will, in the not too distant future, begin to factor how communities are dealing with this liability.

Therefore, the issuance of GASB 45 is more than a financial reporting requirement. Its issuance reminds towns like Upton that it has future obligations that may have a material effect on the Town.

Consideration of Fraud and Theft

In these trying economic times, it is reasonable to expect that the frequency of fraud and theft by employees, customers and vendors may increase. The Town should be well aware of this increased risk and take additional measures to better safeguard the Town's cash and other assets. Fraud can include theft, the misappropriation of assets such as cash or easily marketable equipment like computers, the execution of transactions with related parties that are not disclosed and not completed "at arm's length," or the modification or fabrication of financial records to protect job security. The Town must increase its focus and awareness of fraud risks throughout all areas of local government. Suspicious or unusual activity, particularly in cash handling areas, should be promptly investigated.

We suggest the Town implement the following:

1. Develop a Written Fraud Policy

Implement written fraud risk policies. Such a policy would direct the Town to perform a risk assessment that would allow the Town to identify, analyze and manage the risk of fraud.

2. Establish a Limited Internal Audit Process

The Town does not have sufficient resources to create an autonomous, internal audit function. However, under Chapter 41 of MGL, the Town Accountant or equivalent position has the ability to examine books and records of any department on a periodic basis, and at least on an annual basis.

We suggest that the Town Accountant or equivalent cycle audit the cash handling departments. A different department should be chosen each month, and the cash handling for that month should be reconciled independently. For example, in the area of building permits, the number of permits issued multiplied by the amount per permit should be reconciled back to the cash turned over.

Such a process would provide an excellent deterrent against fraud.

The Town should be aware that our audit procedures are designed to provide reasonable assurance that the financial statements are fairly presented and free of material misstatement. Our audit includes considerations for fraud; however, no assurances can be given that we would detect fraud through our audit. Our audit cannot be relied upon to detect fraud or illegal acts that may exist. It is also important to note, that the Town has

implemented a process by which the audit will include a rotation of audits of its cash handling departments.

Policies and Procedures Manual

In Massachusetts, policies and procedures that are required to be followed by Towns are normally stipulated through Massachusetts General Laws, such as Chapter 30 (B) for procurement etc. In addition, various Associations, such as the Massachusetts Accountants' Association, and the Massachusetts Treasurers and Collectors' Association publicize "best practices" manuals for use by Towns.

While the Town makes diligent attempts to follow these standard guidelines and requirements, we feel that summarizing these practices into one formal comprehensive manual for employees to follow would best assist the Town in reaching uniform compliance in these areas and therefore we suggest the Town endeavor to create a policy and procedure manual that would establish consistency in financial policies between departments focusing on the following areas:

1. Purchasing.
2. Cash receipts.
3. Human resources. (see above)
4. Investment policies. (Treasurer has but could incorporate into overall manual)
5. Fraud. (see above)
6. Fixed assets.

Regionalization

One of the stronger trends currently achieving momentum in government is the collaboration of efforts to preserve critical services and reduce costs. This movement is called regionalization. The Town has been very proactive in seeking out and evaluating opportunities to provide services in a collaborated manner with other communities. The Town is currently using a shared Conservation Agent with Ashland and is concluding the evaluation of a regionalized dispatch service with 4 other communities. We encourage the Town to continue this productive process with regards to other services.

New Health Insurance Legislation

Chapter 69 of the Act of 2011 was signed into law by the Governor on July 12, 2011. This is an Act relative to Municipal Health Insurance. The Act amends Chapter 32B and as a result of its enactment, Section 26 will be added to Chapter 32B and reads as follows:

An appropriate public authority of a political subdivision which has undertaken to provide health insurance coverage to its subscribers under this chapter shall conduct an enrollment audit not less than once every 2 years. The audit shall be completed in order to ensure that members are appropriately eligible for coverage.

We suggest the Town review this amendment and put a plan in place to comply with such requirements. At this time it is not clear if the audit may be conducted internally or by an independent party. The intention of the audit is to cause the removal of subscribers who do not qualify to participate in the Town's health plan.

III. FINDINGS AND RECOMMENDATIONS

Monthly Cash Reconciliation Process

The Town Treasurer performs bank reconciliations on a monthly basis in a timely manner. Bank balances are reconciled to ending system balances within the Treasurer's accounting system. However, this reconciliation is generally not shared with the Town Accountant on a regular basis. Communication between these two officials is critical to preventing and detecting misstatements that have the potential for having a material effect on the Town's financial statements. We recommend that these two officials work together to develop a closing cycle where monthly cash reconciliations are shared upon their completion.

Check Stock

The Town Treasurer keeps check stock in a locked safe in their office. This same safe contains a valid signature stamp. The maintenance of blank check stock as well as the ability to endorse Town checks represent incompatible duties. We recommend that blank check stock be stored in a secured location outside the Office of the Town Treasurer. Furthermore, we recommend that a check log be maintained that accounts for the sequence of check stock issued by warrant number and warrant date.

Town Treasurer is an Elected Position

The Town's Treasurer/Collector position is elected. The election of Treasurer/Collectors is antiquated and dates back to a time where political figures, as opposed to full-time employees, were required to fill such positions. The election of this important Town function can lead to unqualified people filling this position simply based on their local popularity. In addition, as only Upton residents are eligible to seek election as the Town's Treasurer/Collector, the pool of talent available to the Town is limited. Furthermore, as an elected official, the Treasurer/Collector can operate autonomously with little repercussion. We recommend that the Town consider a referendum to amend the selection method of its Treasurer/Collector as an appointment by the Town's Board of Selectmen or its Town Manager.

Presently, we feel the position is being adequately supported and administered by the incumbent. The conversion from elected to appointed is typically considered after an incumbent has retired if the individual is approaching retirement age. This may be the best manner to accomplish this in Town.

Short-term Disability Self Insurance

In the event of a non-work related injury and after all earned and unused sick time has been exhausted, the Town will pay 100% of an employee's first sixty days of absences and 75% of the next sixty days of absences. This effectively is a self-insurance plan for short-term disability and, depending on the frequency, timing and severity of Town

employee injuries, can represent a significant drain on the Town's resources. We recommend that the Town investigate the cost effectiveness of implementing a short-term disability insurance policy in place of the current system used. We understand that the Town Manager has received quotes for this and is in the process of implementing this effective July 1, 2012.

Master Payroll Database

The Town does not maintain a master payroll database that efficiently accumulates gross payroll information by employee. As the Town employs less than sixty employees (this figure excludes the effect of seasonal workers), the development of such a database would not be too time consuming. This type of database would serve as an effective tool in evaluating the weekly payroll vouchers presented to the Town for payment by the individual department heads and thereby function as a key control element in the Town's payroll cycle.

Information Security

Recent legislation at both the federal and state level, particularly the federal "Red Flag" rules set forth under the 2003 Fair and Accurate Credit Transaction Act, charge organizations like the Town with a duty to protect personal information of its customers and employees that is stored electronically as well as in paper form.

The information found on a certain withholding documents like a W-4 or W-9 contains sensitive personal financial information including social security numbers. We observed several of these completed forms in plain sight within the Office of the Treasurer during the course of our audit procedures. There are serious financial penalties for non-compliance with these information security regulations. We recommend that the Town inform all department heads of the recent information security regulations and, if necessary, provide a general training on the subject matter. Furthermore, we recommend that the Town (i) develop policies and procedures surrounding information security, up to and including a written information security plan, (ii) appoint a Town employee to head up this endeavor and (iii) take all necessary steps to ensure compliance with these laws and regulations.

Ambulance Billings

Effective July 1, 2011, the Town engaged a third party service provider to process its ambulance billings and collections. This decision has already begun paying dividends as the collection percentages since this date have increased from prior levels. The Town has not yet developed a formal policy with respect to the write off of contractual allowances and uncollectible accounts. We recommend that the Town develop such as policy as soon as possible.

In addition, the Town has made improvements to the recording and recognizing of revenues from ambulatory services. Previously revenue generated from paramedic

activity was recorded in an agency account, which was then used to pay the paramedics. The Town Manager amended this process to facilitate a more efficient analysis of the ambulatory service on an periodic basis.

The final step regarding the accounting for ambulatory services is to record the amounts owed from the users of the service in the general ledger. Presently, the Town does not historically record ambulance receivables in its accounting system. While Massachusetts General Laws do not require that ambulance receivables be recorded by the Town in its accounting records, the Town is required to report these amounts in accordance with accounting principles generally accepted in the United States of America. The Town should consider implementing a process in which monthly reports from the third party service provider are submitted to the Town Accountant for recording in the base accounting records.

Accounting System

The Town's integrated accounting system is cumbersome to operate at the Town Accountant level. The software manufacturer is better known for its Assessing and Collecting capabilities, for which it is a more than suitable solution for the Town.

The preparation of financial statements and financial reports from the accounting system often requires multiple outputs exported into Microsoft Excel. This type of financial reporting increases the likelihood of processing errors that may go undetected for so time.

Furthermore, with the exception of the Town's general fund, its community preservation fund and its enterprise funds, receipts and expenditures are recorded directly against fund balances as opposed to individual revenue and expense accounts. This method of accounting is far from optimal and requires a great deal of data analysis to determine the actual inflows and outflows of resources in any given period.

We recommend that the Town evaluate accounting software applications that integrate with their current vendor's Assessing and Collecting modules to determine whether another solution is both cost effective and efficient to use.

Water and Sewer Enterprise Funds

In recent years, the Town elected to account for its water and sewer activities in two dedicated enterprise funds. We commend the Town for establishing enterprise funds as this should help the Town determine the true costs of these activities, and thus assist the Town in establishing an adequate and accurate fee structure.

There do exist however, several issues in the manner in which the Town budgets for and accounts for this activity as follows:

1. The majority of the activity is recorded in these enterprise funds however activity is also recorded in the general fund, special revenue fund, capital projects fund

and trust funds. In order to evaluate the true results of operations, all of this activity has to be culled out and consolidated. This is an extremely cumbersome and complicated process which is subject to errors (there were numerous errors in the prior year audit caused directly from these classification issues). We recommend that beginning in fiscal year 2013 all activity is budgeted in the enterprise fund and accounted for in the enterprise funds.

2. The true cost of the enterprise funds, should include provisions to allocate indirect costs for administration of the respective enterprise activity. This will allow the community to properly evaluate all true costs of the activities. Presently, no such provision exists. We suggest the Town endeavor to calculate indirect costs and charge them against enterprise activity.

IV. DEPARTMENTAL REVIEWS

In connection with the financial statement audit, we performed certain procedures surrounding the cash management and recordkeeping of two departments. These departmental reviews were limited to these areas of accounting and financial significance.

As a result of our reviews, we did not observe the existence of any formal policies and procedures. Effective policies clearly communicate what is expected of employees along with the intent and purpose behind the expectations. The use of this control mechanism would better ensure that transactions are authorized and assets are adequately safeguarded. Furthermore, in the event of personnel turnover, effective policies and procedures facilitate the transition of new personnel. We recommend that the Town endeavor on a process over the next two fiscal years to have each department analyze their operations, assess the business and operating risks inherent within their operations and outline their key processes and internal controls. Policies and procedures should then be developed that are easy to understand and follow.

BOARD OF HEALTH

The Board of Health generates revenues in a variety of manners including the sale of solid waste trash bags and permitting. In fiscal year 2011, the Town reported \$182,005 and \$10,969 in revenues from the sale of trash bags and permits, respectively. In light of its significance, our review focused more attention on the sale of trash bags.

Residents can legally dispose of their solid waste in one of two manners – (i) purchase pre-stamped, yellow trash bags from either the Board of Health’s office or local convenience stores at a price of \$7 for five bags, or \$1.40 per bag or (ii) contract privately with a qualified rubbish removal hauler.

Based on our review of Board of Health records, 124,982 trash bags were sold in fiscal year 2011. Local convenience stores sell approximately 95% of all trash bags; sales from the Board of Health’s office represent the remainder. At \$1.40 per bag, this activity generates nearly \$175,000 in revenues, which is within five percent of the recorded fiscal year 2011 revenues. Differences in reported revenues versus operating metrics can exist for a variety of reasons including to the timing of receipt turnovers from the department to the Town Treasurer and changes in inventory levels at the local convenience stores.

The cost component of administering the Town’s solid waste program includes curbside collection fees, waste disposal fees and costs to purchase the trash bags. According to the fiscal year 2012 budget, the Town appropriated the following amounts for these costs:

Curbside fees	\$	295,500
Disposal fees		131,000
Bags		32,000
	\$	<u>458,500</u>

It is evident that the cost to administer this program (which does not include any component of indirect cost) exceeds the revenue that is generated from this program. Therefore, this deficiency is subsidized through the Town's property taxes and other sources of income in its general fund.

Based on our review of this department's operations, we are presenting the following recommendations to the Town:

Cost Gap

As illustrated above, the annual revenues generated from the solid waste program do not cover its expenses. The Town has three alternatives to this situation – (i) increase the revenues for solid waste trash bags, (ii) reduce costs of (iii) abandon this process entirely and provide solid waste trash disposal services to its residents as part of its general Town services.

To increase revenues, the Town must consider increasing the selling price of its trash bags and/or increase the number of residents using this service. The selling price of solid waste trash bags has not changed since 2008; however, over this same period of time, waste disposal costs have increased approximately 23%. Furthermore, approximately 78% of Town residents use the solid waste trash bag service. The Town should consider a price increase to its trash bags. As the percentage of residents using this service is relatively high, the cost to promote these services to those residents using a private hauler may be prohibitive and unlikely to generate a sufficient cost-benefit.

As mentioned above, a third alternative available to the Town is to eliminate this service entirely and provide curbside trash pickup to all residents. The cost of this service would be included in the tax base of all residents, which would increase their property taxes. However, as many of the Town's residents have residential mortgages on their properties and likely deduct their property taxes on their personal income tax returns, this additional property tax would provide them with additional income tax deductions for a service they currently pay out-of-pocket with no income tax deduction benefit. A ballot override would be necessary for this scenario.

Turnover Frequency

The Board of Health's turnover of its cash collections is, often times, not done in a timely manner. Turnover of departmental receipts should be done on a regular basis, regardless of the amount of cash on hand. We recommend that the department turn over all cash and checks in its possession to the Town Treasurer on a more timely manner (at a minimum weekly).

Reconciliations

The Board of Health office maintains a log of trash bags sold. However, this log represents transactions in which the office itself has sold bags and the turnover of trash bag revenues by the local convenience stores. A better control with respects to the convenience store sales would be to record the number of bags forwarded to the convenience stores for consignment sale and compare these figures to the amounts the local convenience stores turnover to the department. Over time, the department can see trends of turnover and accumulate data to determine how many units of inventory each convenience store has on hand. This reconciliation tool is essential in ensuring that all cash collections from trash bags sales are being paid to the Town. We recommend that the department implement such a reconciliation mechanism.

Recordkeeping

Based on our review, we were informed that the recordkeeping process at the Board of Health has changed very little of the last twenty years. Certain transactions are now being accumulated and tracked in Excel, however there are many manual processes, many of which are redundant with the Excel files. We recommend that the department purchase an off-the-shelf accounting package such as QuickBooks or Quicken to track its selling transactions, not only for trash bag sales, but also permitting.

Operating Metrics

Based on our review, the Board of Health office tries to collect operating data such as number of trash bags delivered, trash bags sold and tons of trash processed. However, much of this data is incomplete or untimely prepared. This is important data to benchmark the operations of the solid waste removal program and provides the Town with valuable tools for internal control.

For example, 124,982 trash bags were sold in fiscal year 2011 per the department's records. Assuming 20 pounds of trash are contained in each bag, the Town would have processed 1,249 tons of trash in fiscal year 2011. This figure should be compared to the tonnage reported by the Town's vendors. We performed this analysis for fiscal year 2010 as much of fiscal year 2011's data was unavailable at the time of our review. Based on our analysis, the fiscal year 2010 trash disposal costs were within ten percent of our expectation. Therefore we could conclude that the solid waste revenues for fiscal year 2010 appear to be reasonably stated.

We recommend that the department diligently collect and record all key operating metrics and regularly compare this data to its revenue collections.

Inventory Controls

Physical Inventory Counts – The department does not perform physical inventory counts for its own inventory or inventory on consignment at local convenience stores. Physical

inventory counts are generally recognized as a key component of internal control for any entity in which inventory management is a material business cycle. We believe that inventory management is a material business cycle for the Board of Health. We recommend that the department perform periodic inventory counts of its inventory (twice a year at a minimum). Furthermore, provided the reconciliation recommendation is followed, over time, periodic physical inventory counts at the outside convenience stores should be performed.

Inventory Security – The department maintains its stock of unsold/unconsigned trash bags in a storage shed outside its office. While this shed is padlocked, the screws to its hinges can be removed easily by a thief and the contents of the shed stolen. We recommend that the department remedy this immediately.

Permitting

The Board of Health issues permits using manual permit books. These books are not pre-numbered. The use of pre-numbered permits serves as a control and can facilitate the reconciliation of cash turnovers to permits issued by the department. We recommend that the department implement the use of pre-numbered permits or implement an automated permitting system if deemed cost effective.

RECREATION COMMISSION

The Recreation Commission administers a variety of programs available to Town residents for fees. In fiscal year 2011, the Town reported recreation revenues of approximately \$110,000 and expenditures of \$117,000. At June 30, 2011, the recreation revolving fund had a positive fund balance of approximately \$26,000. There was also \$67,000 reported as a recreation gift fund balance at June 30, 2011.

The activities in the recreation department generate a high frequency of cash and check payments to the recreation department. Therefore, there is a greater risk of misappropriation of Town assets within this department's operations.

Based on our review of this department's operations, we are presenting the following recommendations to the Town:

Recordkeeping

Based on our review, the recreation department has many revenue generating activities such as beach sticker sales, summer camp fees and other sporting program fees. However, the current system used by the department makes it very cumbersome to determine how much revenue is generated by these individual programs. Furthermore, the Excel files used to accumulate and track these activities is often completed months after the program fees have been collected and the funds turned over to the Town.

We recommend that the recreation department consider implementing an off-the-shelf accounting package such as QuickBooks or Quicken to track its selling transactions. Furthermore, there are many Internet-based, activity registration systems available that could allow for the payment of fees with a debit or credit card, which would not only facilitate cash turnovers but, in all likelihood, provide greater customer satisfaction to Upton residents.

Reconciliations

The recreation department does not reconcile its activity with the activity recorded by the Town Accountant in the Town's accounting records. We recommend that, once our recordkeeping recommendations are implemented, that the recreation department review the monthly activity posted in the Town's accounting system to its own records.

Inappropriate Accounting Practices

Ice Cream Sales – the recreation department sells ice cream to its summer camp participants. Based on our review, we cannot locate any evidence that revenues collected from this activity are being turned over to the Town Treasurer. While it is unlikely that any such revenue is material (estimated to be approximately \$1,500 per year), this series of cash transactions is being processed in an irresponsible manner by the recreation department and contrary to all cash management regulations set forth by MGL. We recommend that the recreation department remedy this situation immediately before it begins its busy season this summer.

Basketball Program – the recreation department's operation of its basketball program is not in compliance with the regulations set forth by MGL. The basketball director collects fees directly from participants and uses these fees to pay for basketball expenses like referees directly. As a result, this "off the books" activity is in violation of MGL, which requires that all disbursements be properly authorized and processed through Town warrant. Furthermore, this type of accounting may, in all likelihood, result in the Town being a participant in the payment of unreported income to individuals, which is a violation of IRS regulations. We recommend that the recreation department remedy this situation immediately and develop a program in which all monies received for this program are turned over to the Town and all payment be paid through the Town's warrant process.

Safeguarding Assets

Cash – based on our review, we were informed that checks and cash received by recreation department personnel may, at times, be taken home at the end of a day as opposed to having been counted, recorded and stored in a safe. We recommend that the recreation department implement a policy requiring that all cash collections be counted, recorded and deposited into a safe at the end of each day.

Fidelity Bonds – in light of amount of cash transactions processed by the recreation department, the department should consider the purchase of fidelity bonds that insure against cash theft or loss of cash. The costs of these fidelity bonds are rather inexpensive. We recommend that the Town evaluate this risk and determine if fidelity bonds are cost effective. Furthermore, we recommend that the Town evaluate its current insurance policies to determine if employee fidelity is covered as well as evaluate its other tort coverages in light of kinds of activity performed within this department.

Operating Metrics

There are a number of mechanism the recreation department can implement to better assess its operations. Headcount per activity per amount of revenue should be aggregated and compared each year. In addition, for those recreation department activities where payroll is present, a gross profit analysis can be performed. We recommend that the recreation department begin aggregating such data in Excel and monitor the performance of the individual recreation department programs based on revenues and gross profit.

Personnel Matters

The recreation department has year-long employees and many seasonal employees. Personnel management is therefore a key business cycle for the recreation department.

Information Security – the recreation department should be aware of its responsibility to protect personal information in accordance with the Red Flag rules. We observed several forms in plain sight in the recreation department during the course of our review where employee names and social security numbers were present. There are serious financial penalties for non-compliance with the new information security regulations. Refer to our recommendations we made for the Town for further details on how to remedy this issue.

Timesheets – the use of timesheets serves as a key control in the personnel management business cycle. We were informed that timesheets are maintained manually as opposed to using a punch clock or other more accurate technological means. This manual process subjects the inputs to the manual timesheet to an “honor system”. We suggest that the Recreation Department transition to a more technologically efficient and accurate manner of tracking time, through either a punch clock or biometric (thumb push) means.

Long-term Capital Improvement Program

The recreation department’s operations are highly dependent on its facilities and equipment. Investments in infrastructure may create additional revenue-generating programs for the recreation department. We recommend that the recreation department develop a long-term capital improvement plan. This plan should be financed through the accumulation of positive results of operations over a period of time.

Internet Access

The recreation department facility does not have access to the Internet. There were several recommendations in this report that can be facilitated with Internet-based applications. Furthermore, without Internet access, recreation department personnel cannot access email, which is a principal means of communication in today's world. We recommend that the recreation department investigate the cost benefit of securing wireless Internet access for itself.