

TOWN OF ADAMS, MASSACHUSETTS

MANAGEMENT LETTER

June 30, 2010

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Adelson Moynihan Kowalczyk PC

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Established 1938

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To the Board of Selectmen
 The Town of Adams, Massachusetts

Dear Members of the Board of Selectmen:

In connection with our audit of the financial statements of the Town of Adams as of June 30, 2010, we have made a review of the Town's accounting procedures and internal control. While the primary objective of such a review is to afford us a basis for determining the scope of our audit procedures, it nevertheless presents us with an opportunity to submit, for the Town's consideration, suggestions for changes in procedures, which, in our opinion, would strengthen internal control or contribute to the improvement of operating efficiency.

The comments and recommendations in this letter are based upon observations made in the course of such review. The review was not designed for the purpose of expressing an opinion on internal accounting control, and it would not necessarily disclose all weaknesses in the system. The matters discussed herein were considered during our examination of the above-mentioned financial statements, and they did not modify the opinion expressed in our report on those financial statements.

The conditions noted are not necessarily the result of poor management and may in many cases be due to factors outside the control of Town personnel, such as organizational restrictions and budgetary limitations. In addition, many of the conditions noted herein existed prior to the terms of the current Town officials.

We recognize that practical considerations are an important factor in instituting changes in accounting procedures and the system of internal control. The Town must weigh the possible additional costs of such changes against the risks inherent in the present procedures and systems. Comments marked with an asterisk denote items which are repeated from prior year. The Town should be aware that failure to correct these conditions has a direct impact on the operating efficiency of the Town and the timeliness and cost of performing an audit.

Please indicate in the "Action Taken" space of the letter, what corrective measures the Town intends to implement with regard to each recommendation, which will be part of the final letter to be sent to the Massachusetts Division of Local Services.

After you have had an opportunity to consider our comments and recommendations, we shall be pleased to discuss them further with you.

We would like to express our thanks and appreciation to the Town and its personnel for the cooperation given us during the course of our examination.

Sincerely yours,

Adelson Moynihan Kowalczyk PC
 ADELSON MOYNIHAN KOWALCZYK PC

February 12, 2011

BACKGROUND

A major benefit of an independent audit of a city or town is the management report generated as an adjunct to the audited financial statements.

To derive maximum benefit from this report, the respective department heads should review the comments and recommendations and as soon thereafter as possible, respond in writing to the Town Administrator as follows:

- A. How they plan to implement the recommendations and the anticipated date of implementation.
- B. If they disagree, they should outline their reasons and submit alternative recommendations and dates of implementation.

The Town Administrator should meet with the department heads and after due consideration, decide on a course of action. A written response must be noted in the action taken area to be included in the final letter to be sent to the Massachusetts Division of Local Services. The department heads should be required to submit monthly written reports to the Town Administrator of their progress in implementing the recommendations.

Comments and Recommendation

- *1. Based on discussions with management it came to our attention that the Town of Adams does not have a written fraud policy. A fraud policy is probably the most important part of an anti-fraud environment. Towns need the collective expertise of their entire supervisory and management team to effectively deal with the challenges and exposure that fraud and misconduct present. The Town is in the process of completing its fraud policy.

Recommendation:

The Town of Adams is compiling necessary information to implement a written fraud policy. The purpose of the document is to move the reader to action when appropriate and to make clear that all individuals have an active role in fraud prevention. Such a policy should state that the requirements apply to all supervisors and personnel with respect to their fraud prevention, detection, and reporting responsibilities. This policy would be included in the Town's written personnel policies manual. The fraud policy could be signed by the members of the Board of Selectmen and the management team attesting to the fact that he/she has not committed fraud nor has any knowledge of fraud committed by others.

Action Taken:

A fraud policy is nearly ready to submit to the Board of Selectman to include with the Town's Personnel Policies Manual.

- *2. The Government Accounting Standards Board issued GASB 54 on March 9, 2009, Fund Balance Reporting and Governmental Fund Type Definitions. It is intended to improve the usefulness of information provided to financial report users about fund balances by providing more clearly structured fund balance classifications. It is effective for financial statements for periods beginning after June 15, 2010.

Recommendation:

We recommend that the Town's Accountant obtain an understanding in order to implement GASB 54, and contact the Department of Revenue for guidance in implementing this standard.

Action Taken:

The Town Accountant has attended several classes sponsored by the Department of Revenue and the Massachusetts Accountant's and Auditors Association and is prepared to implement the new GASB 54 reporting in the Fiscal Year Ending June 30, 2011.

3. The Treasurer's bank reconciliations on many accounts were not completed/done for several months and needed a lot of adjustments to resolve.

Recommendation:

Bank accounts should be reconciled monthly and agreed to the general ledger. The Treasurer should update the accounts monthly and give initialed copies to the Town Accountant to agree to the general ledger.

Action Taken:

The Town Accountant has balanced the Treasurer's bank accounts through June 30, 2010 and passed the corrections on to the Treasurer's Office. This has enabled her to perform monthly balancing in a timely and correct fashion for all of the current fiscal year.

4. Real Estate and Personal Property receivables have been increasing over the last couple years due to the bad economy, unemployment, etc. At June 30, 2010 approximately \$1,000,000 is owed to the Town of Adams.

Recommendation:

We recommend that the Tax Collector come up with a more aggressive approach to collecting some of the Town's money that is owed.

1. After 30 days, second bill should be sent with interest.
2. After that phone calls should be made to property owners and payments schedules should be worked out and adhered to.
3. If still no resolution, names, amounts, and locations should be published in the newspaper.
4. If still not paid, tax title or tax foreclosures are your final remedy.

Action Taken:

The recommendations have been passed on to the Treasurer.

5. The Town of Adams implemented GASB 45 Accounting and Financial Reporting by employers for Postemployment Benefits other than pensions in fiscal 2009. The GASB 45 valuation date was as of 6/30/2008. The Town is obligated to do its next actuarial valuation for fiscal years 2011, 2012, 2013. The valuation should be as if the implementation was fiscal 2009.

Recommendation:

The actuarial valuation should be recalculated going forward based upon fiscal year ended June 30, 2009 being the first year of the calculation.

Action Taken:

The actuarial valuation will be recalculated as directed above.

Town of Adams, Massachusetts

Status of Prior Year Recommendations

1. Repeated as Item 1, modified.
2. Repeated as Item 2, modified.