

TOWN OF HALIFAX, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2011



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June 25, 2012

To the Honorable Board of Selectmen
Town of Halifax, Massachusetts

In planning and performing our audit of the financial statements of the Town of Halifax, 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 accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A *material weakness* is a deficiency, or 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are also submitting for your consideration comments and recommendations which are not considered to be significant deficiencies but are intended to improve operations and internal accounting control.

The comments and recommendations presented herewith in are intended to improve the system of internal accounting control or result in other operating efficiencies. The factual accuracy of our comments has been discussed with management to obtain their concurrence before the development of our recommendations for improvement. Matters commented on represent findings during the audit and have not been reviewed subsequent to June 25, 2012.

A management letter is critical by nature because its purpose is to identify areas where improvements can be made. Accordingly, we have not commented on many positive attributes of the Town's financial management systems. It is also important to understand that it is generally not practical to achieve ideal internal control in the complex governmental accounting environment.

We would like to commend management and other department personnel for their progress in implementing many recommendations on findings presented in previous years. Additionally, we would like to acknowledge the courtesy and assistance extended to us by Town personnel during our audit.

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

Very truly yours,

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STATUS OF PRIOR YEAR COMMENTS

As part of our audit of the Town's financial statements for the year ended June 30, 2010, we issued a letter of comments and suggestions dated March 21, 2011, relating to our fiscal year 2010 audit. The Town has considered these comments. The status of our prior year comments is presented below.

Material weaknesses identified during our prior year audit

Our prior year report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* contained 2 material weaknesses: Implement procedures to reconcile cash timely (2010-02) and Improve calculation, recording, and reconciliation of certain receivable accounts (2010-03); and one significant deficiency: Implement procedures to maintain inventory of capital assets and infrastructure (2010-01).

The Town has made progress improving procedures for recording and reconciliation of receivables and is no longer listed as a significant deficiency or material weakness for fiscal year 2011.

Record all cash accounts on the general ledger

We continue to recommend the Town record the Deputy Collector and planning board accounts in the Town's general ledger.

Improve year-end closing process

For fiscal year 2009 and 2010 the Town closed its books on its own; however, additional closing entries were required by the DOR to adjust receivable balances prior to preparing the required year-end financial statements for submission to the Bureau of Accounts for certification of free cash. Additional entries were also recorded after the Town provided its June 30, 2011 trial balance to us. We continue to recommend the Town implement procedures for a more thorough closing process at year end.

Implementation of GASB Statement 54 Fund Balance Reporting and Governmental Fund Type Definitions

The Governmental Accounting Standards Board (GASB) has issued a new financial reporting standard which became effective for the Town's fiscal year ending June 30, 2011. Under this new standard, the GASB has significantly changed definitions, classifications and reporting models for fund balances of governmental entities. The Town's financial statement and footnotes have implemented the required changes and disclosures.

CURRENT YEAR COMMENTS AND SUGGESTIONS

Significant deficiency and material weakness identified during our current year audit

Our current year report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* contained 1 significant deficiency: Implement procedures to maintain inventory of capital assets and infrastructure (2011-01) and 1 material weakness: Implement procedures to reconcile cash timely (2011-02). Please see that report and accompanying schedule of findings and responses for additional information.

Proration of health insurance premiums between employers

As part of the Municipal Relief Act passed in 2010 new procedures were authorized whereby employers now have the ability to prorate the cost of health insurance premiums paid to retirees between multiple employers. For example, under the former law, if the Town hired an employee who previously had 25 years of service in another town and that employee worked for 5 years for Halifax then retired Halifax was responsible for covering that retiree's cost for the post employment health insurance benefit.

Under the Municipal Relief Act, a new Section 9A ½ was added to chapter 32B of the MGL and reads as follows:

Whenever a retired employee or beneficiary receives a healthcare premium contribution from a governmental unit in a case where a portion of the retiree's creditable service is attributable to service in 1 or more other governmental units, the first governmental unit shall be reimbursed in full, in accordance with this paragraph, by the other governmental units for the portion of the premium contributions that corresponds to the percentage of the retiree's creditable service that is attributable to each governmental unit. The other governmental units shall be charged based on their own contribution rate or the contribution rate of the first employer, whichever is lower.

The treasurer of the first governmental unit shall annually, on or before January 15, upon the certification of the board of the system from which the disbursements have been made, notify the treasurer of the other governmental unit of the amount of reimbursement due for the previous fiscal year and the treasurer of the other governmental unit shall immediately take all necessary steps to insure prompt payment of this amount. In default of any such payment, the first governmental unit may maintain an action of contract to recover the same, but there shall be no such reimbursement if the 2 systems involved are the state employees' retirement system and the teachers' retirement system.

These provisions apply only to employees who are members of retirement systems and who retire after January 1, 2011. Retirement boards will be providing information to governmental units and treasurers to verify the amounts of creditable service from various government units for post January 1, 2011 retirees.

We recommend Town management implement procedures to ensure that it can timely and properly assess other governmental units for prorated retiree health insurance costs, as well as verify costs prorated to it from other governments. MLB is considering developing web-based applications to assist governments in this regard and is available to assist you further if desired.

Improve internal control over Treasurer's signature

During inquiries made of Treasurer it is our understanding the Treasurer's signature stamp is kept with the Assistant Treasurer. We recommend the Treasurer maintain control over the signature stamp and provide access to the Assistant Treasurer only when necessary.

Implement reconciliation procedures with the Deputy Collector

As part of audit procedures we understand there were no reconciliations performed between the Treasurer's records and those of the Deputy Collector during fiscal year 2011. We recommend the Treasurer periodically and regularly reconcile activity and outstanding balances with the Deputy Collector.
