

TOWN OF DOUGLAS  
MANAGEMENT LETTER  
JUNE 30, 2004



Board Of Selectmen  
Town of Douglas  
Douglas, Massachusetts

We have audited the general purpose financial statements of the Town of Douglas for the year ended June 30, 2004 and have issued our report thereon dated December 16, 2004. As part of our audit, we made a study and evaluation of the Town's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the Town's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The Town is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and provide the Town with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with proper authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles and/or statutory requirements.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Town of Douglas taken as a whole. Our study and evaluation disclosed no condition that we believe to be a material weakness.

We are available to assist you in reviewing and/or implementing the specific recommendations, and we would be pleased to discuss them in more detail at your convenience.

Very truly yours,

A handwritten signature in cursive script that reads "Borgatti Harrison &amp; Co.".

Borgatti Harrison & Co.

The preparation of the Fiscal 2004 financial statements was every bit as challenging as was Fiscal 2003 due to GASB Statement #34. It still proved to be very time consuming and raised additional reporting and reconciliation questions.

As was mentioned last year, the Government Accounting Standards Board (GASB) is not done with the financial statements of municipalities. GASB Statement #45 entitled "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" is effective for fiscal year beginning July 1, 2008 for the Town of Douglas. This statement will change the reporting of postemployment benefits (other than pensions) from the current "pay-as-you-go" basis to an accrual basis, thereby matching the future costs of these benefits with the periods of employment.

We are willing to work with the Town Accountant as the implementation date approaches.

In last years management letter, we discussed the need to institute a fixed asset accounting system that would accumulate the data necessary to record additions, disposals and retirements each year. The Town Accountants general ledger contains detail of fixed asset expenditures but the general ledger is not integrated with the fixed asset system. Therefore, the Town Accountant is required to independently enter the current years activity.

This updating was not performed until after the year end was closed and ready to be audited. We suggest that as part of the fixed asset maintenance system that the separate fixed asset program be updated on a more periodic basis, other than once per year, so that the information is more timely available for the Town's annual audit and other reporting requirements of the Town.

#### Old Town Hall Renovation Fund

When the old town hall was renovated to be leased by the U.S. Postal Service, the Town overspent the amount borrowed for the project. The plan at the time of the overexpenditure was to reduce the deficit each year by a portion of the annual rents received from the post office.

However, what has happened over the years is that the Town has appropriated the rentals as receipts to the general operating budget of the Town. As of June 30, 2004, the deficit is \$8,960. We suggest that the Town either lower the appropriation for fiscal year 2006 by a sufficient amount to eliminate this deficit or raise this amount on the fiscal 2006 tax recapitulation sheet.

#### Insurance Withholdings

Presently, insurance withholdings according to the periodic payroll registers are not being reconciled to the monthly insurance invoices. This reconciliation process is important to make sure that all employees that the Town is being invoiced for insurance coverage are contributing their required amounts. This procedure would also cover inactive employees, such as retirees and COBRA.

Motor Vehicle Titles

Presently, the titles to motor vehicles are either being kept by the respective department or are in the Treasurers safe. We suggest that all titles be kept in the Selectmen's office in their fire proof cabinet. The departments that are actually using the vehicle should have a copy in their office records.