

**BARNSTABLE COUNTY RETIREMENT ASSOCIATION**  
**MANAGEMENT LETTER**  
**DECEMBER 31, 2005, 2006 AND 2007**





*Certified Public Accountants*

**SULLIVAN, ROGERS & COMPANY, LLC**

Corporate Place I, Suite 204 • 99 South Bedford Street

Burlington, Massachusetts 01803

P • 781-229-5600 F • 781-229-5610 www.sullivan-rogers.com

To the Honorable Retirement Board  
Barnstable County Retirement Association

In planning and performing our audit of the financial statements of the Barnstable County Retirement Association (the Association) as of and for the years ended December 31, 2005, 2006 and 2007, 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 Association'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 Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the conditions identified in our December 31, 2005, 2006 and 2007 *Reports on Internal Control Over Financial Reporting and Compliance and Other Matters*, dated January 15, 2010, represent material weaknesses.

During our audit we also became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. Our comments and recommendations concerning those matters are summarized in the memorandum that accompanies this letter. This letter does not affect our reports dated January 15, 2010, on the financial statements of the Association.

The Association'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, the Retirement Board and others within the organization and should not be used by anyone other than these specified parties.

*Sullivan, Rogers & Company, LLC*

January 15, 2010

This page left intentionally blank.

**BARNSTABLE COUNTY RETIREMENT ASSOCIATION**

**MANAGEMENT LETTER**

**DECEMBER 31, 2005, 2006 AND 2007**

---

**TABLE OF CONTENTS**

	<b>Page</b>
Comments and Recommendations .....	1
Annual Affidavits.....	1
Blank Check Stock and Signature Stamp .....	2
Bank Reconciliations .....	3
Financial Policies and Procedures Manual .....	4
Develop and Document a Disaster Recovery Program.....	5

## Comments and Recommendations

### Annual Affidavits

#### Comment

Pursuant to 840 CMR 15.01, PERAC requires all members or beneficiaries currently receiving benefits to annually file an affidavit that, among other things, attests to their name, current address, marital and/or dependency status and a statement certifying that the member or beneficiary is currently living. In addition, PERAC requires a biennial audit of at least 5% of the affidavits received.

We identified that the Association does not audit the affidavits received from its members or beneficiaries currently receiving benefits.

#### Recommendation

We recommend that procedures be implemented to biennially audit at least 5% of the affidavits received and retain the audit documentation as a permanent record. An example of an audit procedure the Association could perform would be to require a selected sample of retirees to have their respective affidavits notarized. Another example would be to have the selected sample of retirees hand deliver the affidavit and provide a picture form of identification (i.e., license, passport, etc.).

#### Management's Response

It has always been the policy of the Retirement Association to send benefit verifications bi-annually to all current retirees or beneficiaries. The verification must be signed and returned by the retiree or by someone on his or her behalf otherwise the Board will suspend the benefit until the verification is filed. The verifications are tracked to confirm receipt of every notice sent. Based upon the auditors' recommendations as reviewed and discussed by the Retirement Board, the retirement staff will verify no less than 5% of the signed benefit verifications by comparing signatures to documents already on file.

## **Bank Reconciliations**

### Comment

We identified that monthly bank reconciliations are not signed off by either the preparer or the reviewer. Proper internal controls require (1) the preparer of financial reports, such as bank reconciliations, to sign off on the report in order to create an appropriate audit trail and (2) supervisory reviews of bank reconciliations to reduce the potential for errors, omissions and other irregularities that could occur and go uncorrected.

### Recommendation

We recommend that the Association implement procedures to require that all bank reconciliations be signed off by the preparer and be reviewed and approved by supervisory personnel.

### Management's Response

Based upon the auditors' recommendations as reviewed and discussed by the Retirement Board the Retirement Association has already implemented the recommendation.

## Financial Policies and Procedures Manual

### Comment

Although the Association's internal controls are functioning well, we believe that preparation of a formal policy and procedures manual would improve and standardize the Association's financial policies and procedures. Inherent in any organization that operates without formalized written procedures are inconsistencies in everyday policies and procedures. The number of such inconsistencies can be minimized by the written codification of policies and procedures and insistence on adherence to them. Such a manual should include policies and procedures relative to all financial functions and processes, including, but not limited to, the following:

- Cash receipts
- Cash disbursements
  - Payroll (employee and retiree)
  - Vendor
- Billing/Invoicing
- Cash and accounts receivable reconciliations
- Recordkeeping requirements
- State reporting requirements
- Month-end and year-end closing procedures

The manual should also clearly define the objectives, responsibilities and authorizations for all employees/job positions.

The use of written policies, procedures, and job descriptions in conjunction with specific assignment of responsibilities would increase supervisory personnel's effectiveness. Such written documents would decrease the time spent on supervision of clerical personnel and in attempts to define job responsibilities on each occasion of employee turnover.

### Recommendation

We recommend management develop and implement a formal financial policies and procedures manual that is ultimately approved by the Retirement Board.

### Management's Response

Although the Retirement Association has very thorough checks and balances built into our system based upon the auditors' recommendations as reviewed and discussed by the Retirement Board, the Retirement Association will develop a procedure manual for the Board's approval.

## Develop and Document a Disaster Recovery Program

### Comment

The Association has property insurance; however it does not have a plan of action in case its offices should be destroyed by a fire, natural disaster such as a flood or tornado, or a bombing or other terrorist act. Such a disaster could strike at any time, perhaps without warning. In that case, the Association would have to act quickly to take steps critical to assessing and recovering from loss of, or damage to, its premises; furniture and equipment; and electronic data.

A well-thought out and documented disaster recovery plan would help the Association's personnel act quickly and appropriately at a time when the stress and disruption of a disaster might adversely affect their memory, emotions, and judgment. It would also help others take charge in place of managers who might be lost, injured, or otherwise unavailable at the time of the crisis.

As part of developing a disaster recovery plan, arrangements should be made for protection of files and for use of backup space, equipment and furniture, or services should a disaster occur. In addition, while developing the plan, management personnel could take the opportunity to reassess the adequacy of its property insurance and to learn about some of the financial assistance that might be available to the Association after a disaster so that such assistance could be requested as quickly as possible.

### Recommendation

We recommend management develop and implement a disaster recovery plan. The disaster recovery plan should be documented and at least one copy stored in a secure, off-site location. We suggest that the documentation include the following:

- A list of key contacts, including all employees and their emergency contacts, insurance companies, key suppliers and customers, and important professional services such as restoration specialists
- A current schematic showing how the computer system is designed and connected
- A current, complete set of documentation for all of the operating systems and application software (including version numbers)
- A copy of the schedule for the off-site storage of backup data and programs
- A list of safety and community services that might be needed
- A list of pre-arranged temporary alternative work sites
- A list of probable equipment and supplies that would be needed for recovery operations and related vendors

The disaster recovery plan should be reviewed, updated, and tested at least annually. This will allow the disaster team members to assess the plan's continued appropriateness and feasibility in light of current conditions and to become familiar with implementing each step of the plan so that they could act more quickly and decisively at the time of the disaster.

### Management's Response

As a governmental entity we do not presently have funds within the Association's budget to provide a full Disaster Recovery Program. The Retirement Association has a contract with PTG which provides the software for its operation system. The system is Web based which includes offsite servers. The system is designed with passwords to be accessible from offsite locations. The Retirement Association's records will be constantly backed up for recovery purposes. The Retirement Association will have, from a records recovery standpoint, addressed a disaster recovery program as for the proposed disaster recovery plan the staff and the Retirement Board will address and prepare a plan.