

**TOWN OF BRIDGEWATER, MASSACHUSETTS**

**REPORT ON APPLYING AGREED-UPON PROCEDURES  
COMMUNITY PRESERVATION ACT FUND  
OPERATIONS OVERVIEW  
MAY 2010**

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# ROSELLI, CLARK & ASSOCIATES

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CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT CONSULTANTS

## Independent Accountant's Report on Applying Agreed-Upon Procedures

The Honorable Members of the Board of Selectmen  
Town of Bridgewater, Massachusetts

We have performed the procedures specified in Schedule I, which was agreed to by the Town of Bridgewater "the Town". The procedures were performed, solely to assist the Town of Bridgewater in analyzing the operations of the Community Preservation Act Fund and the possible identification of process deficiencies and needed improvements. This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures specified on Schedule I either for the purpose for which this report has been requested or for any other purpose.

We have attached to this report an overview of the Community Preservation Act Fund operations and recommendations for improvements as Schedule II.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the Community Preservation Act Fund operations. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Town, the Community Preservation Committee and their respective management. It is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

*Roselli Clark & Associates*

Roselli, Clark and Associates  
Certified Public Accountants  
Woburn, Massachusetts

May 26, 2010

## **SCHEDULE I – AGREED UPON PROCEDURES**

1. We reviewed bank statements provided by the Treasurer/Collector's Office to ascertain if any unauthorized inter-fund borrowing occurred.
2. We compared the bank statement balances to the general ledger cash balances.
3. We assessed the method and manner of allocating interest to the CPA Fund when inter-fund borrowing was identified.
4. We reviewed how CPA funds are invested and assessed the sufficiency of interest earned.
5. We inquired as to the Treasurer/Collector's Office procedures to process transactions through CPA Fund bank account.
6. We made inquires as to the procedures for paying CPA Fund related expenses.
7. We reviewed a sample of expenses charged to the CPA Fund for proper approval and adherence to Massachusetts General Law ("MGL").
8. We reviewed CPA Fund reports submitted to the Massachusetts Department of Revenue for accuracy and completeness.

## **SCHEDULE II – OVERVIEW OF THE COMMUNITY PRESERVATION ACT FUND OPERATIONS AND RECOMMENDATIONS FOR IMPROVEMENTS**

### **INTRODUCTION**

In 2005 the Town accepted the provisions of the Community Preservation Act, (CPA) which added a 2% surcharge on local property taxes with certain exemptions. The funds raised from the surcharge, as well as an annual state contribution, are to be set aside and used only for open space, historic resources and affordable housing purposes.

During fiscal year 2010 it came to the attention of Town officials that in order to meet the operating cash flow needs of the Town, borrowings were made from the CPA Fund bank account several times during 2009 and 2010. Each of these borrowings was repaid to the CPA Fund with interest and the last of these borrowings was repaid on April 28, 2010. As discussed below, these internal borrowings were not made in accordance with municipal finance law.

Communities that bill residential taxpayers on a semi-annual basis often encounter cash flow difficulties in the few months leading up to the tax due dates of November 1 and May 1 of each year. Most communities, including the Town, rely on the issuance of Revenue Anticipation Notes (“RAN’s”) to temporarily borrow to fund the operations of the Town when faced with cash shortages. When RAN’s are not sufficient to meet cash flow needs internal borrowings may be utilized, with several exceptions. Internal borrowings may not be made from trust funds, retirement funds, municipal insurance funds, or any other fund deemed by the Department of Revenue (“DOR”) to be restricted. In a letter to the Town dated March 15, 2010 the DOR confirmed that CPA monies are considered restricted and may not be used for internal borrowing.

During our evaluation of the CPA Fund operations, we focused our attention on the following areas: (i) inter fund borrowing and (ii) internal controls.

## I. INTERFUND BORROWING

### *Amounts Borrowed from CPA Fund*

As a result of our analysis of the bank statements provided by the Treasurer/Collector's Office, we have determined that the following internal borrowings from the CPA Fund occurred:

<u>Date Borrowed</u>	<u>Bank Interest Rate</u>	<u>Amount Borrowed</u>	<u>Date Returned</u>	<u>Bank Interest Rate</u>	<u>Interest Repaid to CPA Fund</u>
9/22/08	2.00%	\$ 1,000,000	11/3/08	1.75%	\$ 2,299.83
2/19/09	1.00%	1,000,000	5/13/09*	0.90%	
3/5/09	1.00%	1,000,000	5/14/09*	0.90%	
3/11/09	1.00%	300,000	5/18/09*	0.90%	\$ 4,548.22
7/31/09	0.80%	1,500,000	11/3/09	0.70%	
9/18/09	0.70%	250,000	11/3/09	0.70%	\$ 2,852.81
2/16/10	0.45%	<u>1,500,000</u>	4/28/10	0.45%	<u>\$ 1,423.73</u>
TOTAL		<u>\$ 6,550,000</u>			<u>\$11,124.59</u>

- \$900,000 was returned on 5/13/09, \$1,000,000 was returned on 5/14/09 and the remaining \$400,000 was returned on 5/18/09.

All material inter fund borrowings were made during fiscal 2009 and 2010. As previously discussed and also as reiterated in a memorandum from the Department of Revenue, inter fund borrowings from restricted funds are not in accordance with municipal finance laws, and therefore, the Town should abolish this practice immediately.

### *Interest Repayment Calculations*

The only available calculation of repaid interest to the CPA fund related to the final borrowing that was repaid on April 28, 2010. The Treasurer/Collector's Office determined a daily interest cost based on the stated bank interest rates for each month and multiplied that amount by the number of actual days borrowed. Upon recalculation we found the Treasurer/Collector's Office interest repayment amount to be appropriate. When applying that same methodology to the other borrowings we found the amounts repaid to the CPA Fund to be materially correct and believe that the CPA Fund was properly credited with all interest owed.

### *Interest Rates*

The CPA Fund's monies are invested in an interest bearing municipal trust account. A summary of fiscal year end bank account interest rates, CPA Fund balances and annual CPA Fund interest earned is presented below:

<u>Fiscal Year Ended</u>	<u>Fiscal Year End Bank Interest Rate</u>	<u>Fiscal Year End CPA Fund Balance</u>	<u>CPA Fund Interest Earned</u>
June 30, 2006	3.50%	\$ 361,673.22	\$ 3,011.66
June 30, 2007	3.25%	\$ 1,121,399.26	26,474.96
June 30, 2008	2.00%	\$ 1,868,042.39	42,837.28
June 30, 2009	0.80%	\$ 2,390,085.68	31,051.13
June 30, 2010*	0.45%	\$ 2,567,185.02	<u>13,124.42</u>
TOTAL			<u>\$ 116,499.45</u>

- Figures are fiscal year-to-date as of May 19, 2010.

The expenditure activity in this account has been minimal over the duration of the past 5 years. Accordingly, the account has grown year by year. The Town should re-think its investment strategy for available cash balances. If a good portion of this balance is targeted to remain stagnant, the Town should investigate investment vehicles such as Commercial Certificates of Deposit or other vehicles, which are at least twice the rate of the most current yield for this bank account.

## **II. INTERNAL CONTROL**

One of the responsibilities of management is to establish and maintain an internal control structure adequate to provide assurance that assets are safeguarded against loss from unauthorized use or disposition, and transactions are executed in accordance with management's authorization. Consideration should be given to the implementation of controls in the following areas in order to strengthen this process as it relates to CPA Fund activities.

### *Assigning Oversight of CPA Fund Financial Activities*

During our review of disbursements from the CPA Fund we noted that invoices were approved by the CPA Committee, the Town Manager or the Recreation Commission depending on the overseer of the individual project or activity. While it is understandable that oversight responsibilities for CPA projects will fall to multiple sources, we believe that it is important for a single department to assume primary responsibility for processing CPA Fund transactions. This department would be responsible for approving all invoices for payment and reconciling financial activity to the monthly appropriation reports issued by the Town Accountant's Office,

among other responsibilities. The Town Manager's Office appears best suited for these responsibilities due to the part-time volunteer nature of the CPA Committee and the Town Manager's familiarity with established Town financial procedures.

#### *Approving Expenditures for Payment*

We noted two invoices that were processed for payment without any documented approvals, including an invoice for construction services totaling approximately \$26,000. Without such approvals, it is unclear that the work performed by the contractor was completed satisfactorily and to the specifications required by the Town and the CPA Committee. We also noted several vouchers submitted for payment with incorrect or missing general ledger accounts, which required additional journal entries to record the expenditures to the correct CPA Fund project.

#### *Reconciliation of Fund Balance and Bank Balance*

The Treasurer/Collector's Office has implemented procedures to timely transfer revenues into the CPA Fund bank account as well as initiating transfers out of the account when CPA Fund expenditures are processed on the warrant. However, we noted that the current bank balance is \$2,000 lower than the CPA Fund balance on the general ledger due to an apparent clerical error made on a December 2009 bank transfer. Due to the low interest rate earned by the CPA Fund bank account, any lost interest would be immaterial. We recommend that a reconciliation of the CPA Fund balance and bank account balance be performed at least quarterly.

#### *Accurate DOR Reporting*

The Town is responsible for filing several reports to the DOR regarding CPA Fund operations as part of the annual tax rate certification and also as standalone reporting. Several of the reports that we reviewed had clerical errors and figures that did not agree to the general ledgers of the Town. While we do not believe any of these errors have a significant effect on the operations of the Fund, more care should be taken in the future to ensure the accuracy and completeness of these reports. All future state reporting should also be reconciled to the general ledger amounts before submission.

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