

***CITY OF WALTHAM, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2008***



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To the Honorable Mayor Jeannette A. McCarthy  
and Members of the City Council  
City of Waltham, Massachusetts

In planning and performing our audit of the basic financial statements of the City of Waltham, Massachusetts as of and for the fiscal year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered City of Waltham, Massachusetts' internal control over financial reporting 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 City of Waltham, Massachusetts' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Waltham, Massachusetts' internal control.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

This communication is intended solely for the information and use of management of City of Waltham, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties.

December 16, 2008

CITY OF WALTHAM, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2008

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## ***Prior Year Comments and Recommendations***

## **STATEMENT NO. 45 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD**

### Prior Comment

In July of 2004, the Governmental Accounting Standards Board (the GASB) issued Statement No. 45 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This Statement improves the relevance and usefulness of financial reporting by (a) requiring a systematic, accrual-basis measurement and recognition of other postemployment benefits (OPEB) cost over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

We had recommended that management be proactive in its approach to the successful implementation of GASB Statement No.45

Current Status – *Resolved*. The City successfully implemented GASB Statement No. 45 in fiscal 2008.

## **EVALUATE THE EXISTING ACCOUNTING SYSTEM – ENHANCE BUDGETARY CONTROL**

### Prior Comment

In the prior year management letter we noted that the computer software used to capture the general ledger accounting activity may have become obsolete due to the significant growth in City operations and commented that there were a number of software applications available in the market that could enhance reporting capabilities and increase productivity.

We recommended that the City consider evaluating the capability of its existing accounting system in meeting its short and long-term reporting requirements and that both the City and School should collaborate in a search to find a more comprehensive financial software application.

Current Status – *Resolved*. The City has contracted with a software vendor and anticipates beginning the implementation process in fiscal 2009.

## **FRAUD RISK ASSESSMENT**

### Prior Comment

In the prior year management letter, we indicated that the opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the City perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the City's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the City that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the City, its

environment, and its processes. The fraud risk assessment process should consider the City's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- What individuals have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- What assets of the City are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.

We recommended that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation.

Current Status – *Resolved*. The City has implemented an ongoing risk assessment process.

## ***Current Period Comments and Recommendations***

## **ENTERPRISE FUNDS – INTEREST ALLOCATIONS**

### Comment

The Massachusetts Department of Revenue Enterprise Fund Manual requires each enterprise fund to be credited with its proportionate share of investment income whether or not cash is pooled or separate bank accounts are maintained. The City pools its cash for investment purposes and therefore does not maintain separate bank accounts for the enterprise funds. However, separate general ledger cash accounts are maintained for each enterprise fund. Investment income should be allocated proportionately to each enterprise fund based on the general ledger cash balances.

### Recommendation

We recommend that the City implement policies and procedures that allocate investment income to the enterprise funds based on the general ledger cash balances.

## **TIMELINESS OF WATER AND SEWER METER READING AND BILLING**

### Comment

In order to set the water and sewer rates, the City projects consumption based on historical data. For the projections to be reliable, the meter readings and commitments must be done on a consistent and timely basis. Additionally, management must make various financial decisions during the course of a fiscal year such as setting budgets, adjusting rates, and increasing or decreasing appropriations. Many of these decisions are based on financial analysis, which is dependent on consistent and timely meter readings and water and sewer commitments.

For billing purposes, the City is divided into three sections. Individual residential properties are billed quarterly with each section sequenced so that one section is billed each month. Commercial properties are billed monthly. This billing cycle was designed to maintain a consistent cash flow that would meet the financing needs of the water and sewer enterprise funds. During our review of the fiscal 2008 water and sewer commitments, we noted that the commitment cycle was very inconsistent. For example, the fourth quarter commitment for the Western section was not billed until the next fiscal year. In addition, there were several months during the fiscal year that had no residential commitments while other months had multiple commitments. Based on conversations with City Officials and review of billing records, this situation has been an ongoing problem for several years.

### Recommendation

We recommend that the City implement policies and procedures that will ensure that meter readings and commitments are performed and processed on a consistent and timely basis. We also recommend that the City consider utilizing more modern meter reading technology such as radio or satellite transmitter technology or outsourcing the meter reading process altogether.