

CITY OF WALTHAM, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2009



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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, 2009, 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 18, 2009

CITY OF WALTHAM, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2009

TABLE OF CONTENTS

PAGE

<i>Prior Year Comments and Recommendations</i>	1
Enterprise Funds – Interest Allocations.....	2
Timeliness of Water and Sewer Meter Reading and Billing	2
<i>Current Period Comments and Recommendations</i>	3
Internal Service Fund.....	4
City Clerk’s Fees.....	4

Prior Year Comments and Recommendations

ENTERPRISE FUNDS – INTEREST ALLOCATIONS

Prior Year Comment

In the prior year management letter, we indicated that 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.

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

Current Status – *Resolved*. Interest was allocated to the water and sewer enterprise funds.

TIMELINESS OF WATER AND SEWER METER READING AND BILLING

Prior Year Comment

In the prior year management letter, we indicated that 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 fiscal 2009, we noted that the commitments were consistent from July through December; however inconsistencies were noted during the remainder of the fiscal year. Based on conversations with City Officials and review of billing records, this situation has been an ongoing problem for several years.

We recommended that the City implement policies and procedures to 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.

Current Status – The Engineering department has requested \$4.5 million as a part of the Department's multiyear capital plan to fund an upgraded meter reading system that takes advantage of remote meter reading technology.

Current Period Comments and Recommendations

INTERNAL SERVICE FUND

Comment

We noted that the internal service fund has been experiencing significant declines in its fund balance for the past several years. The table below shows the trend in this fund for the last five years:

<u>Fiscal Year</u>	<u>Fund Balance</u>
2005	\$5,595,782
2006	\$3,956,316
2007	\$2,671,872
2008	\$1,299,529
2009	\$ 596,894

As shown above, the fund has decreased nearly \$5.0 million over the past five years. If the balance becomes negative the City's free cash will be reduced.

As a general rule the minimum balance in this account should be equal to the fund's incurred-but-not-reported claims plus a reserve of approximately one month's claims.

Recommendation

We recommend that the City review the recent operations of the fund and create a plan to replenish the depleted reserves while maintaining an adequate fund balance that can absorb the normal fluctuations involved in operating a self-insured plan.

CITY CLERK'S FEES

Comment

The City Clerk's office is responsible for the collection of fees for various licenses and permits such as; dog licenses, marriage licenses and birth and death certificates. We noted that these documents are not pre-numbered and as a result the Clerk does not have assurance that the amount of cash turned-over to the Treasurer is consistent with the number of licenses and certificates issued. Pre-numbering the licenses and certificates would allow the department to create a daily log to account for all licenses and certificates issued which could then be reconciled with the daily deposit.

Recommendation

We recommend the City Clerk's office utilize pre-numbered licenses and certificates to allow a complete accounting of licenses and certificates issued and to facilitate a more accurate reconciliation to cash received and reported to the Treasurer and City Auditor.