

CITY OF WALTHAM, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2013



Certified Public Accountants

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To the Honorable Mayor and City Council
City of Waltham, Massachusetts

In planning and performing our audit of the financial statements of the City of Waltham, Massachusetts (City) as of and for the year ended June 30, 2013, 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 City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We also want to make you aware of a recently issued accounting standard that will significantly impact your financial statements in future years. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated December 19, 2013 on the financial statements of the City.

This communication is intended solely for the information and use of management, the Mayor, City Council and others within the organization and should not be used by anyone other than these specified parties.

Sullivan, Rogers & Company, LLC

December 19, 2013

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Comments and Recommendations

School Budget

Comment

The School Department's fiscal year 2013 budget was voted on by the School Committee as a single number for personnel and a single number for expenses. Based on an opinion, dated July 3, 2013, from the Massachusetts Association of School Committees, Inc., "the provision of some line items helps the school committee to discharge its fiduciary duty to ensure the policies of the committee (M.G.L., c.71, s.37) are followed, and that the budget remains balanced."

Recommendation

We recommend the School Committee vote on and approve the School Department's annual budget in a manner that promotes greater transparency through providing greater line item/cost center detail (e.g., as documented in the School Department's annual operating budget book).

Life Insurance Withholdings

Comment

The City currently records employee group life insurance withholdings as revenues and expenditures. The current process overstates revenues and expenditures since withholdings should be accounted for as a liability until the bill is paid. In addition, the current method does not facilitate the reconciliation of amounts owed from employees for group life insurance.

Recommendation

We recommend that all payments received from employees for group life insurance be recorded as a liability. When insurance bills are paid, the City should reduce the liability for the amount charged on the bills for employee group life insurance.

Police Detail

Comment

Consistent with the prior year, the police detail fund had a deficit of approximately \$96,000 at June 30, 2013, (after applying accounts receivable totaling approximately \$374,000). When a police detail fund is in deficit, it is typically an indication that one or more of the following events has occurred and gone undetected and/or unresolved:

1. Billing error
2. Accounts receivable were written off without a funding source (i.e., the general fund)
3. Revenue or expenditure posting errors

Recommendation

We recommend the City determine the cause of the current deficit and take corrective action, which may only require an adjusting entry to reclassify incorrect postings of activity. However, corrective action may also require the deficit to be funded by available funds.

We recommend procedures be implemented to reconcile the police detail fund balance deficit to the detailed accounts receivable balances monthly.

Continuing Appropriations

Comment

General fund continuing appropriations represent amounts that were budgeted (during the current fiscal year or prior fiscal years), unspent at fiscal year-end and carried over to the subsequent fiscal year. These appropriations remain available until exhausted or until the completion of the purpose of the appropriation. Our prior year management letter identified the following regarding the City's continuing appropriations:

1. An accounting of certain continuing appropriations identifying the original appropriation amount, date and council order number is not maintained
2. The expenditure ledger does not specifically identify or segregate individual continuing appropriations through the use of individual account numbers and line items
3. There are no year-end procedures in place to determine what projects have been completed and if the appropriation should be closed out to undesignated general fund balance or carried over to the ensuing fiscal year

These conditions create difficulties when determining the appropriate amounts to carry forward to the subsequent fiscal year and turn back to the general fund.

During fiscal year 2013, the City began the process of addressing and resolving the deficiencies identified above.

Recommendation

We recommend the City continue its progress and implement the necessary procedures to rectify the deficiencies identified above by the end of fiscal year 2014.

Capital Assets

Comment

Our prior year management letter identified that the City maintains its capital asset activity and balances using spreadsheet software (Microsoft Excel). While Excel is an acceptable automated software program, we recommended the purchase of a relational database program to more effectively and efficiently manage and account for capital asset inventory.

During fiscal year 2013, the City purchased a relational database specifically designed to maintain its capital asset activity and balances. However, as of the date of this report, it has not been implemented. Based on our discussions with City personnel, implementation is anticipated to commence during January 2014.

In addition, the City does not perform a complete annual physical inventory of its capital assets to reconcile with the perpetual inventory records maintained in excel. The performance of an annual physical inventory of capital assets would detect errors and/or irregularities with the perpetual inventory. It would also detect asset activity that may not be reflected in the general ledger (such as asset retirements, trade-ins, etc.).

Recommendation

We recommend the City implement the use of the capital asset database software during fiscal year 2014.

We recommend that the City implement procedures to perform a physical inventory (annually, at a minimum) of the City's capital assets. The inventory could either be performed at the departmental level or centrally by a management-level employee(s) that possess significant knowledge of the City's financial operations.

Compensated Absences - Utilization of Payroll Module

Comment

Consistent with the prior year, the City reports on its financial statements the future liability for accrued sick and vacation time earned by employees. Currently, individual departments manually track and maintain accrued sick and vacation balances that are periodically reported to the Personnel Department. At fiscal year-end, the Auditing Department confirms the amount of unused sick and vacation balances for each employee within each department and compiles and calculates the compensated absence liability in an Excel worksheet. Although Excel is an acceptable automated software program, the City's payroll module has the ability to electronically track these balances. As of the date of this report, this functionality of the payroll module is not being utilized.

Recommendation

We recommend the City evaluate the use of the payroll module to track sick and vacation balances earned and used by its employees to determine the cost/benefit of implementing its use versus the current use of the Excel worksheet.

Financial Policies and Procedures Manual

Comment

We believe that preparation of a formal policy and procedures manual would improve and standardize the City'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
 - Vendor
- Procurement
- Budget
- Grants administration
- Capital assets
- Month-end and year-end closing
- Month-end and year-end reporting

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 design and implement a formal financial policies and procedures manual.

Pension Accounting and Financial Reporting

Comment

In June of 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, which revises and establishes new financial reporting requirements for governments that provide pension benefits to its employees and retirees.

The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the City will be required to recognize its long-term obligation for pension benefits as a liability in its government-wide financial statements. The implementation of this Statement will also:

- More comprehensively measure the annual costs of pension benefits
- Place conditions on the use of the discount rate used to measure the projected benefit payments to their actuarial present value
- Require the use of the “entry age” actuarial cost allocation method, with each period’s service cost determined by a level percentage of pay (referred to as attribution method)
- Expand pension related note disclosures
- Expand pension related required supplementary information disclosures

The requirements of this Statement will improve the decision-usefulness of pension information in governmental financial statements and will enhance the comparability of pension information between governmental entities.

Given the significance of the pension fund liability, the financial reporting impact under the new standard will significantly affect the City’s financial statements.

It should be noted that the implementation of GASB Statement No. 68 is strictly a financial reporting standard and does not constitute a state or federal mandate regarding the funding of the net pension obligation.

The City’s required implementation date of GASB Statement No. 68 is fiscal year 2015.

Recommendation

We recommend management familiarize itself with GASB Statement No. 68 to prepare for its implementation.