

**CITY OF WALTHAM, MASSACHUSETTS**

**MANAGEMENT LETTER**

**YEAR ENDED JUNE 30, 2016**

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, 2016, 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 deficiencies in internal control (other than significant deficiencies and material weaknesses) that are opportunities to strengthen your internal control and improve the efficiency of your operations. 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 January 27, 2017, on the financial statements of the City.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

The City'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 City Council, and others within the City, and is not intended to be, and should not be, used by anyone other than these specified parties.



**CliftonLarsonAllen LLP**

Boston, Massachusetts  
January 27, 2017

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## **Comments and Recommendations**

### **Tax Exempt Properties**

#### Comment

All charitable, benevolent, educational, literary, temperance or scientific organizations and trusts owning real or personal property must annually file State Tax Form 3ABC in order to receive a local tax exemption on such property.

We selected a sample of 23 properties and identified the following:

- 6 Organizations did not file the Form 3ABC during fiscal year 2016
- 1 Organization no longer had a 501(c)(3) status and should have been excluded from the tax exempt listing

#### Recommendation

We recommend procedures be implemented to track the annual State Tax Form 3ABC filing requirements to ensure properties that are classified as tax-exempt are appropriate.

#### Management's Response

For fiscal year 2017 and each fiscal year thereafter, the Assessors' Office will issue a reminder notice to tax-exempt organizations that forget to file their ABC forms by March 1<sup>st</sup> with the Assessors' Office.

## **Cash Receipts**

### Comment

The City's general ledger and Treasurer's cash receipts module are maintained in separate accounting information systems. As a result, the City manually posts cash receipts to the general ledger twice a month. The current process duplicates effort and inhibits the City's timely reporting of cash receipts.

### Recommendation

Although two separate accounting information systems are maintained, the technology exists to integrate the systems. We recommend management consider the cost/benefit of integrating the Treasurer's cash receipts module and the general ledger.

### Management's Response

The City Auditor's Office will contact its general ledger software application provider (Softright/Accela) to ascertain the modification procedures involved and the cost to integrate the cash receipts module and the general ledger. As an interim solution, during July 2015, the City Auditor's Office commenced the posting of the Treasurer's cash receipts twice a month to the general ledger which has produced timelier reporting.

## **Police and Fire Detail**

### Comment

Consistent with prior years, the police and fire detail fund has a deficit fund balance. When the police and fire 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 and fire detail fund balance deficit to the detailed accounts receivable balances monthly.

### Management's Response

The City will contact the Police and Fire Departments to further research the underlying cause of the deficit and consider the funding of the uncollectible portion of the deficit. The City has examined its reconciliation procedures for the activity of this fund and performs them on monthly basis to minimize/identify/correct posting errors.

## **Compensated Absences – Utilization of Payroll Module**

### Comment

Consistent with prior years, 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 and the controls surrounding the compilation of this information has been strengthened over the past several years, 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 continue to 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.

### Management's Response

The City has historically used the payroll module to track the use of vacation hours. As of January 1, 2017, the City has started to implement the utilization of its payroll module to track vacation balances for its employees for hours earned and hours used for annual allotments. During January, a limited amount of unused hours from the prior calendar year, pending authorization by the Mayor, can be carried forward and will be added to the annual allotment for each employee's record in the payroll module. Once the procedures for tracking vacation balances have been fully vetted, a similar exercise will be performed to include sick leave accruals for eligible only employees.

## **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 develop and implement a formal financial policies and procedures manual.

### Management's Response

During the latter months of FY2016, the City Auditor's Office completed a draft of formal financial policies. The draft policies were provided to Standard and Poor's as a positive credit factor exhibit during its rating review on the City's issuance of short term notes in June 2016. The City Auditor's office expects to finalize the draft policies during fiscal year 2017.

The City Auditor's Office has initiated the preparation of a procedures manual through the compilation of written policies and steps for certain tasks, such as payroll processing, warrant processing, etc.

The City will make other departments aware of the audit comment and encourage participation for the creation of a procedures manual for their department's functions.



## **Other Postemployment Benefits Accounting and Financial Reporting (Informational Only)**

### Comment

In June of 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, which establish new financial reporting requirements for governments that provide other postemployment benefits (OPEB) to its employees and retirees.

The implementation of these Statements will represent a significant change in the accounting and reporting of OPEB expense and the related liability. The implementation of these Statements will:

- Require the net OPEB liability to be measured as the total OPEB liability, less the amount of the OPEB plan's fiduciary net position
- Require that projections of benefits payments incorporate the effects of projected salary changes and service credits, as well as projected automatic postemployment benefit changes
- 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 the attribution method)
- Expand OPEB related note disclosures
- Expand OPEB related required supplementary information disclosures

Given the significance of the net OPEB liability, the financial reporting impact under the new standard will significantly affect the Town's financial statements.

It should be noted that the implementation of GASB Statement No.'s 74 and 75 are strictly financial reporting standards and do not constitute a state or federal mandate regarding the funding of the net OPEB obligation.

The Town's required implementation date of GASB Statements No. 74 and 75 are fiscal year 2017 and fiscal year 2018, respectively.

### Recommendation

We recommend management familiarize itself with GASB Statements No. 74 and 75 to prepare for their implementation.

### Management's Response

The City will continue familiarize itself with GASB No. 74 and No. 75 by reading the specific GASB, reading relevant articles and/or attending workshops on its implementation.