

CITY OF WALTHAM, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2010



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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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waltham, Massachusetts as of and for the fiscal year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, 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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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

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

January 27, 2011

CITY OF WALTHAM, MASSACHUSETTS

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PRIOR YEAR COMMENTS

INTERNAL SERVICE FUND

Prior Year Comment

We noted that the internal service fund's net assets had decreased by nearly \$5 million between 2005 and 2009, going from \$5,595,782 in Fiscal 2005 to \$596,894 in Fiscal 2009.

As a general rule the minimum balance in this account should be equal one month's claims, after accounting for the fund's incurred-but-not-reported claims (IBNR).

Current Status

In fiscal 2010 the fund's net assets increased to \$1.7 million.

Continuing Recommendation

We recommend that the City continue its efforts to increase the fund balance to approximately \$2.9 million (1/12 of the \$35.6 million expended in fiscal 2010) so that the normal fluctuations involved in operating a self-insured plan can be adequately addressed.

TIMELINESS OF WATER AND SEWER METER READING AND BILLING

Prior Year Comment

In the prior year, we indicated that in order to set the water and sewer rates the City projects usage 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 water and sewer commitments, we noted that the commitment cycle is very inconsistent. Based on conversations with City Officials and review of billing records, this situation has been an ongoing problem for several years.

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.

Continuing Recommendation

We recommend 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 continue to 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.

CITY CLERK'S FEES

Prior Year 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.

Current Status

The City Clerk's office is investigating the feasibility of implementing a new software package that will resolve the matters noted in this comment.

Continuing Recommendation

We recommend that 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. There are software packages available that are designed to automate this process by generating pre-numbered documents at the point of sale.

CURRENT YEAR COMMENTS

COMPLIANCE WITH MASSACHUSETTS GENERAL LAW SECTION 7A OF CHAPTER 32B

Comment

During the course of our audit, the Mayor informed us that the City is not in compliance with Section 7A of Chapter 32B of the Massachusetts General Laws. As such, the current employer/employee percentage applicable to the City's health care benefits may not be in compliance with Section 7 of Chapter 32B which states that "...there shall be withheld from each payment of wages, salary...fifty per cent of the premium for insurance of the employee and his dependents and the governmental unit shall contribute the remaining fifty per cent of such premium."

Currently, the City contributes between 87.5% and 99% toward the health insurance premium of active employees and retirees.

Recommendation

We recommend that the City adopt Section 7A of Chapter 32B so that the current employer/employee split for health insurance premiums is in compliance with this Massachusetts General Law.

ENTERPRISE FUND OPERATIONS ARE NOT SELF-SUPPORTING

Comment

Enterprise funds are, by design, self-supporting. The fee structure should be designed to meet all direct and indirect costs, as well as support capital additions. In essence, an enterprise fund should be operated the same as a stand-alone business.

The past two fiscal years have seen a significant deterioration in the profitability of water and sewer enterprise funds. The sewer fund has reported losses of \$4.3 million and \$645,000 in fiscal 2010 and 2009; while the water has fund reported losses of \$1.9 million and \$235,000 for the same two periods.

Recommendation

We recommend that the City review the current cost and rate structure of these two funds and, in combination with meter reading comment above, implement the necessary changes to make these operations profitable.

GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) STATEMENT #54

Comment

In February 2009, the GASB issued Statement #54, *Fund Balance Reporting and Government Fund Type Definitions*, which is required to be implemented in fiscal year 2011. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund types, capital projects fund types, and permanent fund types are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

Recommendation

As it appears that this GASB Statement will significantly impact the fund balance classifications presently reported, we recommend that management begin to study and evaluate these changes for financial statement reporting and disclosure purposes, and to formulate plans to be used in explaining these changes to interested parties within the City and to the external users of the City's financial statements.

OTHER POSTEMPLOYMENT BENEFITS ACTUARIAL VALUATION

Comment

The City implemented Governmental Accounting Standards Board (the GASB) Statement No. 45 in fiscal 2008, which required disclosure and recognition of other postemployment benefits liabilities (OPEB). For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with total membership of 200 or more, or at least triennially for plans with a total membership of fewer than 200.

Net OPEB obligations associated with enterprise funds, from which contributions are made, should be displayed as liabilities in the financial statements of those funds. An employer's net OPEB obligation is defined as the cumulative difference between the annual OPEB cost and the employer's contributions to the plan, including the OPEB liability at transition, if any.

The City's actuarial valuation report did not separately report the annual OPEB cost and the employer's contributions to the plan for the enterprise funds. This required management to allocate a portion of the total net OPEB obligation to each applicable enterprise fund. In our opinion, the allocation was based on a reasonable methodology; however it was not actuarially determined, as required by the GASB.

Recommendation

We recommend that the next actuarial report, which is required for the fiscal 2012 audit, include an actuarially determined net OPEB obligation for each applicable enterprise fund.

ENHANCE BUDGETARY CONTROL AND EFFICIENCY

Comment

The municipal budget process is the means by which a City or Town decides how and where available funds will be spent. Budgets are a vital tool in controlling a government's operations. We believe that the City can enhance this process by including all amounts raised on the Tax Recap as budgeted amounts in the accounting system.

The City does not currently record revenue budgets in the accounting ledgers. Revenue collections are monitored through the use of spreadsheets that are manually updated on a periodic basis. Now that the City has successfully implemented a new accounting system (SoftRight), it may be a good time to consider implementing the budget application.

SoftRight's Budget application provides budgeting management, access and controls across multiple departments throughout multiple years. The application allows for an unlimited number of budgeting scenarios. In addition, access controls allow for decentralization, providing each municipal department or location with the ability to configure and submit their departmental and component totals for approval at the management level. The Budget application is fully integrated with SoftRight's general ledger and accounts payable as well as the payroll module to allow approved salary and expenditure projections to be rolled into and out of the budget and general ledger applications.

Recommendation

We recommend that the City consider implementation of the SoftRight budget application for revenues. At a minimum, we recommend that all funding sources and amounts raised per the Tax Recap be recorded in the accounting system. This would provide the ability to generate budget to actual reports for revenues and eliminate the need to maintain spreadsheets that must be manually updated.