

***CITY OF WALTHAM, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2011***



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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, 2011, 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.

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

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City personnel, and 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.

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.

December 27, 2011

CITY OF WALTHAM, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2011

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## ***PRIOR YEAR COMMENTS***

## **INTERNAL SERVICE FUND**

### Prior Year Comment

In the prior year, we noted that the internal service fund's net assets, after providing for the incurred-but-not-reported claims (IBNR), had decreased to \$597,000.

As a general rule, the minimum balance in this account should be equal to one month's claims after accounting for the fund's IBNR.

### Current Status

In fiscal 2011, the internal service fund's net assets increased to an acceptable level that will protect the City against unexpected increases in claims.

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

### Prior Year Comment

In the prior year, 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 healthcare 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.

### Current Status

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

## **ENTERPRISE FUND OPERATIONS ARE NOT SELF-SUPPORTING**

### Prior Year Comment

In the prior year, we indicated that the 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 fund has reported losses of \$1.9 million and \$235,000 for the same two periods.

### Current Status

In fiscal 2011, the City raised rates on both the sewer and water enterprise funds which resulted in surpluses totaling \$2.8 million and \$1.6 million, respectively.

## **GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) STATEMENT #54**

### Prior Year Comment

In the prior year, we indicated that the City was required to implement GASB Statement #54, *Fund Balance Reporting and Government Fund Type Definitions* in fiscal 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.

We recommended that the City 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.

### Current Status

The City implemented GASB 54 in fiscal 2011, its required implementation date.

## **OTHER POSTEMPLOYMENT BENEFITS ACTUARIAL VALUATION**

### Prior Year Comment

In the prior year, we indicated that 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).

Net OPEB obligations associated with enterprise funds, from which contributions are made, should be displayed as liabilities in the financial statements of those funds. 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.

### Current Status

The City's enterprise fund OPEB obligation was actuarially determined for fiscal 2011.

## **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 City implemented procedures to ensure that a full years worth of usage was billed for all water and sewer customers in fiscal 2011. In fiscal 2010, the Engineering department 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. No action was taken on this request in fiscal 2011.

### Continuing Recommendation

We 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

In the prior year, we indicated that 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 continue to 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.

## **ENHANCE BUDGETARY CONTROL AND EFFICIENCY**

### Prior Year Comment

In the prior year, we indicated that 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.

### Current Status

Revenue budgets were not included in the accounting ledgers for fiscal 2011.

### Continuing Recommendation

We continue to recommend that the City record budgets for all revenues that are funding sources for the operating budget so that a balanced budget is entered into the accounting system. During fiscal 2012, the City began implementation and use of SoftRight's Budget application.



## ***CURRENT YEAR COMMENTS***

## **AUDIT OF STUDENT ACTIVITY FUNDS**

### Comment

The Massachusetts Association of School Business Officials (MASBO) published the "Student Activity Accounts Guidelines for Massachusetts School Districts" (the Guideline), in May of 2007, to assist school districts with the operation and management of student activity accounts under the provisions of Massachusetts General Law (MGL), Chapter 71, Section 47, as amended by Chapter 66 of the Acts of 1996. To comply with the MGL, the MASBO recommends that annual audits of the student activity funds be performed. The audit may be an internal audit conducted by the school business administrator, if so approved by the School Committee. However, at least one time every three years, the audit should be performed by an independent audit firm.

### Recommendation

We recommend that the City implement policies and procedures to comply with the MASBO recommendation.

## **STUDENT ACTIVITY POLICIES AND PROCEDURES**

### Comment

The MASBO also published the Guideline as a resource to assist schools with the development of student activity policies and procedures that are in compliance with Chapter 71, Section 47 of the Massachusetts General Laws (MGL). We noted several recommended actions in the Guideline that have not been incorporated into the District's policy. These recommended actions include the following:

- ☐ Requirements for periodic financial reports.
- ☐ Monthly reconciliation procedures between bank and book balances.
- ☐ Check signature authority.
- ☐ Procedures for fundraising.
- ☐ Procedures for the disposition of assets of inactive student activity organizations.
- ☐ Procedures for the disposition of class accounts not closed out after graduation.
- ☐ Appropriate use of student activity funds.

### Recommendation

We recommend that the District adopt the MASBO recommended procedures, as indicated above, and incorporate them into the student activity policy and procedure manual.

## **STUDENT ACTIVITY REIMBURSEMENT PROCESS**

### Comment

In September 2008, the City Treasurer's Office issued a standard deposit slip form and a standard request for reimbursement form to each School in the District. For reimbursements, the City's policy is for each school to complete a request for reimbursement form that itemizes all of the expenditures paid for a given period. This form should then be submitted to the Business Manager's Office where it should be reviewed and approved. Once approved, the City Auditor and Treasurer's Offices are then notified, via a letter from the Business Manager's Office that a transfer should be made from the savings to the checking account. We noted several instances where the requested transfer did not agree with the amount indicated on the reimbursement request form. In some cases the requested transfer was higher and in other cases the requested transfer was lower.

### Recommendation

We recommend that all future reimbursements be based on the actual amount indicated on the reimbursement request form. We also recommend that a copy of the reimbursement request form be submitted to the City Auditor's Office as supporting documentation for the amount being recorded on the warrant.