TOWN OF BURLINGTON, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2009
To the Honorable Board of Selectmen  
Town of Burlington, Massachusetts

In planning and performing our audit of the financial statements of the Town of Burlington, 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 the Town of Burlington, 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 Town of Burlington, Massachusetts’, internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Burlington, 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 the Town of Burlington, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties.

December 10, 2009
# TOWN OF BURLINGTON, MASSACHUSETTS

## MANAGEMENT LETTER

**JUNE 30, 2009**

## TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>PRIOR YEAR COMMENTS</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tailings</td>
<td>2</td>
</tr>
<tr>
<td>Develop Written Disaster Recovery Procedures</td>
<td>2</td>
</tr>
<tr>
<td>Vendor Bank Account and Other Reconciliations</td>
<td>3</td>
</tr>
<tr>
<td>Fraud Risk Assessment</td>
<td>3</td>
</tr>
<tr>
<td>Implement a Month-End Closing Schedule</td>
<td>4</td>
</tr>
<tr>
<td>Budgeting Payroll</td>
<td>5</td>
</tr>
<tr>
<td>Police Detail Account</td>
<td>6</td>
</tr>
<tr>
<td>Receivable Reconciliations</td>
<td>6</td>
</tr>
<tr>
<td>Accrued Compensated Absences</td>
<td>7</td>
</tr>
<tr>
<td>Cash and Investments</td>
<td>7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CURRENT YEAR COMMENTS</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>School Lunch – Federal Grant Reporting</td>
<td>10</td>
</tr>
<tr>
<td>School Lunch – Vending Machinges</td>
<td>10</td>
</tr>
<tr>
<td>Other Post-Employment Benefit Actuarials</td>
<td>11</td>
</tr>
<tr>
<td>Cross-Training</td>
<td>11</td>
</tr>
<tr>
<td>General Reconciliation Process</td>
<td>12</td>
</tr>
</tbody>
</table>
PRIOR YEAR COMMENTS
TAILINGS

Prior Comment

In prior years we had noted that there were no formal procedures to reconcile the balance of tailings reported on the general ledger to the detailed records of the Treasurer/Collector.

We had recommended that this reconciliation be performed on a regular basis to ensure that the Town is following Massachusetts Abandoned Property Laws and properly accounting for checks not cashed.

Status – Partially resolved. The Town is reconciling recent outstanding checks and has resolved many of the old outstanding issues, however, there is still a balance reported on the general ledger that has not been reconciled to the detail listing.

Management’s Response

The Town has reconciled the Tailings account for all checks issued during the last five years. The balance represents funds for checks issued prior to that period. These amounts will be transferred to general cash.

DEVELOP WRITTEN DISASTER RECOVERY PROCEDURES

Prior Comment

The Town does not have written disaster recovery procedures. The time to make contingency plans is before disaster strikes, so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing IT facilities.

We recommended that management develop a disaster recovery plan that includes, but is not limited to, the following matters:

1. Location of, and access to, off-site storage.

2. A listing of all data files that would have to be obtained from the off-site storage location.

3. Identification of a backup location (name and telephone number) with similar or compatible equipment for emergency processing. (Management should make arrangements for such backup with another organization, a computer vendor, or a service center. The agreement should be in writing.)

4. Responsibilities of various personnel in an emergency.

5. Priority of critical applications and reporting requirements during the emergency period.

Status – Resolved.
VENDOR BANK ACCOUNT AND OTHER RECONCILIATIONS

Prior Comment

A critical element of internal control procedures is the reconciliation of the cash book to the bank statements on a monthly basis; and reconciling cash activity and the month end balances to the general ledger.

We noted that reconciliations for the vendor account were not done for a major part of the fiscal year.

The omission of monthly reconciliations does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements may occur and not be detected within a timely manner by Town employees in the normal course of performing their assigned functions. Furthermore, the detection of potential fraud is mitigated.

Additionally, although old reconciling items may appear not to be material to the overall financial position of the Town, it may obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were apparent.

We recommended that all cash accounts be reconciled monthly and that reconciling items be clearly identified and resolved in a timely fashion.

Status – Unresolved. While we noted that the Town obtained a review of the entire cash processing system in an effort to eliminate this comment, a satisfactory resolution was not achieved by year end.

Recommendation

We continue to recommend that all cash accounts be reconciled monthly.

Management's Response

The Town has reconciled all bank accounts through September 2009. For fiscal year 2009 bank reconciliations were approximately 90 days in arrears. Now all bank accounts are reconciled within 60 days.

FRAUD RISK ASSESSMENT

Prior Comment

The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Town perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Town’s internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the Town that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Town, its environment, and its processes. The fraud risk assessment process should consider the Town’s vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:
What individuals have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.

Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.

What assets of the Town are susceptible to misappropriation?

Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?

How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use.

How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.

We recommended that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation.

**Status – Unresolved.** No progress was made on this comment in Fiscal 2009.

**Recommendation**

We continue to recommend that a fraud risk assessment program be developed and adopted by management.

**Management’s Response**

The Town is in the process of preparing a Fraud Risk assessment which we hope to propose to the Board of Selectmen as an official policy in the spring of 2010

**IMPLEMENT A MONTH-END CLOSING SCHEDULE**

**Prior Comment**

We have noted over the past few years that the Town is unable to perform a monthly close out in a timely manner. The closing process can be delayed because some important procedures are not performed on time while others are performed too early in the process. As a result, there can be delays in producing closing entries, trial balances, schedules, reconciliations, account analyzes, and other financial reports needed by management.

We believe that the month-end closing could proceed more quickly by developing a closing schedule that indicates who will perform each procedure and when completion of each procedure is due and accomplished. The timing of specific procedures could be coordinated with the timing of management’s need for the information. The due dates could be monitored to determine that they are being met.
We recommended that the Town document its month-end closing procedure.

**Status – Partially resolved.** A formal schedule has been agreed upon; however, the adherence to the schedule is not occurring consistently.

**Recommendation**

We recommend that the Town adhere to the agreed upon month-end closing schedule.

**Management’s Response**

The Town will again attempt to formalize the month end closing process during FY2010.

**BUDGETING PAYROLL**

**Prior Comment**

The Town currently prepares its annual budget calculating payroll based on the number of pay periods in the fiscal year, (normally 52). However, due to factors such as leap year and the sequencing of the days in each month, there will inevitably be a fiscal year in which 53 pay periods will have to be funded. Depending on the Town’s circumstances at that time, such an additional payroll may have no budget impact; or may have a significant budget impact.

To limit the potential negative impact of having to pay an additional payroll in a budget fiscal year, many communities in Massachusetts budget for and account for a “split” payroll. The split payroll can be designed two ways; for instance it can be calculated using the actual days worked in a fiscal year or it can be calculated based on an average, for example, with each budget year calculated using 52.2 weeks.

We recommended that the Town assess the impact of being required to 1) identify the fiscal year in which an extra payroll occurs and 2) fund it in the year it occurs; versus budgeting for a split payroll in the proper fiscal year

**Status – In process.** The Town is working on this via the budget process; however, no change occurred in Fiscal 2009.

**Recommendation**

We continue to recommend that the Town consider budgeting for a split payroll.

**Management’s Response**

We are in complete agreement with the auditor’s suggestion and would like to implement this budgeting change in the near future. However it will be difficult to accomplish this within the rigid financial guidelines we expect to be operating under for the next few years.
**POLICE DETAIL ACCOUNT**

**Prior Comment**

We noted that the Police Detail Agency fund had a significant negative cash balance at the end of Fiscal 2007 ($382,000) and that the deficit was primarily the result of inadequate billing and collection practices. As a result, there may be a permanent deficit may exist in this fund that the Town will have to make whole.

We recommended that the Town analyze whether or not a true deficit exists in this account and develop a strategy to fund it. We also recommend that the billing and collection practices of the Police Department be evaluated and, where appropriate, be modified to enhance revenue collection.

**Status — Unresolved.** At June 30, 2009, the Police Detail Agency fund had a $442,000 negative cash balance.

**Recommendation**

We continue to recommend that the Town analyze this account to determine its true balance. We also continue to recommend that the billing and collection practices of the Police Department be enhanced to assure that all details are billed and paid for in a timely manner.

**Management’s Response**

The Town will continue to work with Police Department officials to develop a long term strategy to address the deficit and associated collection issues.

**RECEIVABLES RECONCILIATIONS**

**Prior Comment**

We noted that receivable reconciliations are generally performed at year end but not monthly or quarterly. As a result significant errors in the billing of a receivable or the posting of cash could go undetected. Accounts receivable reconciliations are a critical element of internal control and, as such, should be done on a frequent and periodic basis.

**Status — Unresolved.** No progress was made on this comment in Fiscal 2009.

**Recommendation**

We continue recommend that receivables, like cash, be reconciled on a monthly basis.

**Managements Response**

The Town is beginning to reconcile receivables monthly starting July 2009. We have an excel spreadsheet which shows weekly activity and we are trying to match that activity to month end MUNIS reports to be able to reconcile any differences. We have started reconciling monthly and will be completely reconciled for Fiscal 2010 by February 1, 2010.
ACCRUED COMPENSATED ABSENCES

Prior Comment

The Town does not have a centralized system to track and accrue unused earned-time. The records for accrued compensated absences are presently maintained by the various Department Heads. There is a need for the Town to centralize the system of tracking and accruing compensated absences to ensure compliance with the multiple union contracts and other employment agreements. The present system does not minimize the risk that time earned and taken will not be recorded properly.

Status – Unresolved. No progress was made on this comment in Fiscal 2009.

Recommendation

We continue to recommend that sick and vacation time be tracked in a centralized fashion.

Managements Response

We have initiated a centralized system of reporting sick and vacation time used through our payroll system. We are expecting to go live early 2010 and report those balances on the paychecks of each employee.

CASH AND INVESTMENTS

Prior Comment

During our prior year’s audit we were made aware that an outside review was being conducted of the Town’s cash management process, with a goal of identifying areas for improvement in operations and, where applicable, internal controls. That report, dated December 29, 2008, made recommendations related to:

- the payroll withholding process,
- the number of bank accounts maintained,
- the process of reconciling the Treasurer’s cashbook to the general ledger,
- market value adjustments for investments and,
- voided checks.

Status – Partially resolved. The Treasurer’s office has begun to implement the recommendations from the outside review; however, these were implemented subsequent to year end.

Recommendation

We concur with the recommendations made in the above mentioned report and recommend that management implement all of the proposed changes.
Managements Response

The payroll withholding process was implemented after meeting with our outside consultant. This was done prior to fiscal year end.

A number of bank accounts were closed last fiscal year. We are working with the planning department and school department to research other accounts that could be closed as well.

The Treasurer's cash book is reconciled monthly and market value adjustments are still being worked on monthly.

The voided checks issue has been addressed.
CURRENT YEAR COMMENTS
SCHOOL LUNCH – FEDERAL GRANT REPORTING

Comment

The Town currently submits to the Department of Elementary and Secondary Education (DESE) the amount of free and reduced meals for reimbursement. The information provided to the Bookkeeper is derived from the information provided from the cashiers on a daily basis and is reconciled with the daily receipts. This information is linked to a summary by month of total free and reduced lunches for submission to the DESE.

In reviewing the report submitted to the DESE we noted that the number of reimbursable meals per the report was higher than the cashier’s daily tally.

As a condition of receiving Federal awards, non-Federal entities agree to comply with laws, regulations, and the provisions of the contract and grant agreements, and to maintain internal controls to provide reasonable assurance of compliance with these requirements.

Recommendation

We recommend that controls be put in place for the lunch program so that the amounts reported to the DESE for reimbursement are accurate. This could include an authorization by School Management before submission or the actual submission be performed by an individual outside of the School Lunch Program. It is the responsibility of the Town to ensure that the program objectives, procedures, and compliance requirements are met. Noncompliance could have a direct and material effect on this Federal Program.

Managements Response

The School Department has instituted a cross check on all submissions regarding the collection and submission of data for the free and reduced lunch program. The School Department will migrate to a cashless online point of sale system for food service which utilizes a free and reduced lunch program module for reporting.

SCHOOL LUNCH – VENDING MACHINES

Comment

During the year of audit, we noted that net revenue generated from the High School vending machines decreased by $27,000 (38%). In comparison, the Middle School’s Revenue decreased by only 14%. Upon further review, we noted that the High School does not maintain an adequate system of internal controls over the vending activities. Specifically, the same employee is responsible for maintaining the inventory as well as retrieving the monies collected.

Implementing controls is an important area of cash collections. Cash management internal controls represent an application of common sense and prudent conduct to the use and proper safeguarding of assets. Segregation of duties should be performed and an inventory count should be reconciled with the cash receipts. However, the costs and benefits of proposed controls should also be carefully evaluated and the costs should not normally exceed the benefits likely to be derived.

Recommendation

We recommend that the Town implement a system to segregate duties, where possible, and reconcile collections to the inventory consumed on a weekly basis.
Managements Response

The School Department will institute a two person collection procedure for all cash collections from vending machines. The food service manager will provide a monthly reconciliation of vending receipts and vending supplies to the Business office.

OTHER POST-EMPLOYMENT BENEFIT ACTUARIALS

Comment

Now that the Town has met the requirements for implementation of GASB Statement #45, Accounting and Financial Reporting for Post-employment Benefits Other than Pensions, it is time to acknowledge the requirements necessary to stay in compliance with the GASB and obtain the information necessary to complete the Town’s annual audit.

For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more, or at least triennially for plans with total membership of fewer than 200.

For the Town of Burlington this means that an updated actuarial valuation dated December 31, 2009 will have to be obtained in order for the Town to remain compliant with GASB Statement #45, for fiscal years of 2011 and 2012. This is two years after the original December 31, 2007 valuation which can be used for the fiscal years 2009 and 2010 audits.

Recommendation

We recommend that the Town work with their actuarial firm to assure that information needed for the next valuation report is provided in ample time for the fiscal year 2011 audit.

Managements Response

The Town will submit a Warrant Article to Town Meeting in May 2010 to provide funding for an actuarial study as of December 31, 2009.

CROSS-TRAINING

Comment

Cross-trained employees ensure that someone will be able to perform all essential tasks required by each Department. Additionally, cross-trained employees become a valuable resource as their understanding of more aspects of Departmental operations increase. This understanding helps them to better fulfill their responsibilities and recommend improvements in other areas as well. Cross-training will also help the Town avoid the steep costs and operational disruptions involved with hiring outside help in the event an employee’s extended absence.

Recommendation

We recommend that the Town cross-train employees to perform other essential functions so that every position is appropriately backed-up in the event of an unexpected absence.
Management Response

We have scheduled to begin training a person to back-up the cash reconciliation process beginning in January 2010. The training will be focused on understanding the functionality of QuickBooks and the bank reconciliation function.

GENERAL RECONCILIATION PROCESS

Comment

In order to make the financial reports generated by the accounting system as meaningful as possible, the Town should reconcile the general ledger accounts for cash and accounts receivable to supporting documentation on a monthly basis. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

As previously noted, monthly reconciliations are not being performed from the general ledger to the Treasurer's records for the cash and the accounts receivable accounts. In addition, the reconciliation process, when performed, appears to rely heavily on the Town Accountant's involvement. Without this involvement, it would not be possible for the Town to provide the information required to complete the annual audit.

Recommendation

We recommend that the Treasurer's office perform the required reconciliations, on a monthly basis, to aide in the overall reconciliation of these accounts to the general ledger.

Management Response

The Town has reconciled all monthly bank reconciliations within a 60 day month end with a goal of having all reconciliations completed within 45 days.