TOWN OF BURLINGTON, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2010
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, 2010, 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 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 the 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 no 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 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.

The Town of Burlington’s written response to the comments identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

February 4, 2011
# TOWN OF BURLINGTON, MASSACHUSETTS
## MANAGEMENT LETTER
### JUNE 30, 2010

## TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>PRIOR YEAR COMMENTS</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tailings</td>
<td>1</td>
</tr>
<tr>
<td>Vendor Bank Account and Other Reconciliations</td>
<td>2</td>
</tr>
<tr>
<td>Fraud Risk Assessment</td>
<td>3</td>
</tr>
<tr>
<td>Implement a Month-End Closing Schedule</td>
<td>3</td>
</tr>
<tr>
<td>Budgeting Payroll</td>
<td>4</td>
</tr>
<tr>
<td>Police Detail Account</td>
<td>5</td>
</tr>
<tr>
<td>Receivable Reconciliations</td>
<td>5</td>
</tr>
<tr>
<td>Accrued Compensated Absences</td>
<td>6</td>
</tr>
<tr>
<td>Cash and Investments</td>
<td>6</td>
</tr>
<tr>
<td>School Lunch – Federal Grant Reporting</td>
<td>7</td>
</tr>
<tr>
<td>School Lunch – Vending Machines</td>
<td>7</td>
</tr>
<tr>
<td>Other Post-Employment Benefit Actuarials</td>
<td>8</td>
</tr>
<tr>
<td>Cross-Training</td>
<td>8</td>
</tr>
<tr>
<td>General Reconciliation Process</td>
<td>8</td>
</tr>
<tr>
<td>CURRENT YEAR COMMENTS</td>
<td>10</td>
</tr>
<tr>
<td>Water and Sewer Receivables Reconciliation</td>
<td>11</td>
</tr>
<tr>
<td>Old Outstanding Checks</td>
<td>11</td>
</tr>
<tr>
<td>Government Accounting Standards Board (GASB) Statement #54</td>
<td>11</td>
</tr>
<tr>
<td>Health Claims Trust Fund</td>
<td>13</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.

Status – 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.

Recommendation

We continue to recommend 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.

Management’s Response

The Town will reconcile the Tailings account for all checks issued during the last fiscal year.

VENDOR BANK ACCOUNT AND OTHER RECONCILIATIONS

Prior Comment

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

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 or unidentified 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 – The Town has implemented procedures to reconcile these accounts on a monthly basis, however, the reconciliations for each month are regularly occurring three months after the month end close.

In addition, there are still unidentified reconciling items within these reconciliations.

Recommendation

We continue to recommend that all cash accounts be reconciled monthly and to identify reconciling items in a timely manner.
Management’s Response

The Town has reconciled all bank accounts through December 2010. The fiscal year ended as of 6/30/10 and we were 60 days behind on bank reconciliations. Our goal is to have all accounts reconciled within 45 days of month end.

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 recommended 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.

We noted that 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.

Status – No progress was made on this comment in Fiscal 2010

Recommendation

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

Management’s Response

The Town has engaged in discussions with an outside consultant to assist in the preparation of a formalized plan and we hope to have a finished product by the completion of the FY 2011 Audit.

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

Recommendation

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

Management’s Response

The Town intends to re-engage in a discussion with relevant staff members to ensure that the system and schedule that has been agreed to will be implemented.

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 2010.

Recommendation

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

Management’s Response

FY 2011 is a catch up year for budgeted payroll which will require a 53rd budgeted week which is the reason for this comment. The administration is committed to an alternate payroll budgeting method for FY 2012 as is suggested in the comment, to eliminate the need for a 53rd budgeted payroll week in the future.
POLICE DETAIL ACCOUNT

Prior Comment

The Police Detail Agency fund had a significant negative cash balance since Fiscal 2007. The deficit is due to inadequate billing and collection practices. As a result, a permanent deficit may exist in this fund that the general fund will have to make whole, thereby reducing reserves and free cash.

During the current fiscal year the deficit increased to $573,000.

We also noted that new police details are being granted to companies and organizations that had have outstanding unpaid receivable balances.

Status – No progress was made on this comment in Fiscal 2010

Recommendation

We continue to recommend 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.

Finally, the Town hired an outside consultant to perform a more detailed review of this activity. In the report that was issued the consultant made additional recommendations to improve billing and collections. We concur with those recommendations and recommend that the Town implement them.

Management’s Response

To date the Police Department has implemented all of the recommendations suggested in the outside consultant’s report. The administration will continue to work with the Police Department to monitor the deficit and to take the necessary steps to reduce the deficit going forward.

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 – Monthly procedures have been implemented to reconcile receivables.
ACCURED 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 – While the Town has set up the capability to have a centralized system of reporting sick and vacation time through their payroll system, which would also account for accruals on individuals paychecks, these procedures have not been implemented.

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 still working through some details of the implementation with our effected employee groups.

CASH AND INVESTMENTS

Prior Comment

During our FY2008 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 – The Treasurer’s office has begun to implement the recommendations from the outside review, however, the cash reconciliation and tailings procedures still need improvement.

Recommendation

We continue to recommend that the Town implement all of the proposed recommendations made in the report.
Managements Response

All recommendations made by the outside consultant have been implemented. Voided checks are still a problem that has been addressed with all departments holding checks and later voiding them.

SCHOOL LUNCH – FEDERAL GRANT REPORTING

Prior Comment

In the prior year we noted that the Town submitted to the Department of Elementary and Secondary Education (ESE) the amount of free and reduced meals for reimbursement. The information provided to the Bookkeeper was derived from the information provided from the cashiers on a daily basis and was reconciled with the daily receipts. This information was linked to a summary by month of total free and reduced lunches for submission to the ESE.

In reviewing the report submitted to the ESE 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.

We recommended that controls be put in place for the lunch program so that the amounts reported to the ESE for reimbursement be accurate.

Status – The School Department implemented a cashless online point of sale system for food service which utilizes a free and reduced lunch program module for reporting. This system allows for accurate electronic submission of free and reduced lunch data.

SCHOOL LUNCH – VENDING MACHINES

Prior Comment

During the prior year, 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 did not maintain an adequate system of internal controls over the vending activities. Specifically, the same employee was responsible for maintaining the inventory as well as retrieving the monies collected.

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

Status – The Town has segregated the stocking and cash collection duties for the vending machines. Reconciliations are now performed multiple times per week.
OTHER POST-EMPLOYMENT BENEFIT ACTUARIALS

Prior 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.

Status – Town Meeting has approved an appropriation for an actuarial study as of December 31, 2009.

CROSS-TRAINING

Prior 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.

We recommended 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.

Status – During the fiscal year, employees were cross-trained in performing the required essential functions.

GENERAL RECONCILIATION PROCESS

Prior 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.

We previously noted that monthly reconciliations were not being performed from the general ledger to the Treasurer’s records for the cash and the accounts receivable accounts. We also noted that the reconciliation process, when performed, appeared to rely heavily on the Town Accountant’s involvement.
We recommended 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.

**Status** – We noted that accounts receivable are now being reconciled on the general ledger on a monthly basis, however, cash reconciliations have been consistently occurring three months after the close of the period.

**Recommendation**

We continue to recommend that reconciliations be performed monthly. Reconciliations should occur no later than the end of the subsequent month of the month that is being reconciled.

**Managements Response**

The Town does reconcile all accounts monthly. We are currently reconciled within 75 days after the close of business. We will be at 60 days before next fiscal year.
CURRENT YEAR COMMENTS
WATER AND SEWER RECEIVABLES RECONCILIATION

Comment

During the current year we noted that the Town does not have a reconciliation process in place for the water and sewer receivable amounts reported on the general ledger. Formal reconciliation procedures between the Public Works Department and the Town Accountant’s office should be implemented in order to ensure proper valuation of the accounts.

Recommendation

We recommend that the Town reconcile the activity in the water and sewer receivable accounts on a monthly basis to ensure that the activity is properly accounted for.

Management Response

The Administration will work with the Public Works Department to implement proper reconciliation procedures for the Water and Sewer Billing function.

OLD OUTSTANDING CHECKS

Comment

We noted that the bank reconciliation for the vendor account reported outstanding checks greater than three months old as reconciling items. In most instances, checks not cashed timely after the issue date indicates that the checks were either reissued, lost or are being held. As part of internal controls over cash disbursements and expenditures, the aging of outstanding checks should be monitored to ensure they are true outstanding checks.

Recommendation

We recommend that management establish a formal, written policy concerning uncashed checks based on current State laws. Such a policy should specify aging milestones with required actions. For example, this policy might specify that when checks are past 60 days old, the payee should be contacted. After 90 days, the checks should be moved to the tailings account or written off.

Management Response

The Town has established a policy to send letters to vendors who checks remained not cashed after 60 days. If they are still outstanding over 90 days we will place them in our tailings account.

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 Town and to the external users of the Town's financial statements.

**Management Response**

The Administration will provide whatever information is necessary to implement this requirement on time for FY 2011.
HEALTH CLAIMS TRUST FUND

Comment

During fiscal 2010 the Town hired a consultant to conduct a review of the healthcare trust fund. The report made the following recommendations:

1. Investigate reconciliations and variances noted between the general ledger and the bank accounts;
2. Identify and report on the general ledger any stop loss receivables;
3. Reconcile cash activity reported per the bank statements to cash activity reported by Blue Cross Blue Shield.

Recommendation

We recommend that the Town implement the recommendations proposed in the report.

Recommendation

The Town has implemented all of the recommendations in the health claims trust fund report.