TOWN OF BURLINGTON, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2011
To the Honorable Board of Selectmen  
Town of Burlington, 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 Town of Burlington, 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 Town’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 Town’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Town’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 Town 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.

The Town’s written response to the matters 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 1, 2012
TOWN OF BURLINGTON, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 201

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PRIOR YEAR COMMENTS
TAILINGS

Prior Comment

In prior years we had noted issues related to the monitoring, managing and reconciliation of the tailings account administered by the Treasurer's Office.

Tailings represent checks issued by the Town that have not been cashed by the recipient (i.e. outstanding checks). Chapter 200(a), Abandoned Property, Section 9(a) of Massachusetts General Law provides a mechanism by which a treasurer can account for and reclaim these un-cashed checks. There are two basic procedures to follow based on the amount of the outstanding check; those that are less than $100 issued by the Town and those in the amount of $100 or more issued by the Town.

Status – As part of our audit of cash we identified 66 outstanding checks in the vendor account, some dating back to 2007, that were greater than six month old.

It is the Town’s stated policy that checks will be moved into tailings after 90 days. However, we did not see any additions to the tailings account in Fiscal 2011.

Recommendation

The tailings account needs to be updated on a regular basis and should be done so in coordination with the monthly reconciliation of the town’s vendor and payroll accounts and in accordance with Town policy. Checks older than three years should be addressed according to the Abandoned Property law noted above. This will result in additional free cash and will make the bank reconciliations more efficient. (See comment below).

Management’s Response

The Town will place any checks not cashed that are more than 6 months old into the Tailings account. We will also notify any payee that did not cash their checks within 6 months that we will be canceling their check and will replace it with a new one if they contact us.

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 six months we will place them in our tailings account.

VENDOR BANK ACCOUNT AND OTHER RECONCILIATIONS

Prior Comment

In prior years we had noted that the reconciliations for the vendor account were not occurring and included a significant number of unidentified reconciling items and had recommended that all cash accounts be reconciled monthly and that reconciling items be clearly identified and resolved in a timely fashion.

The basis for this comment was that if reconciliations are not performed monthly, there is a risk that errors or irregularities may occur and not be detected within a timely manner and that detection of potential fraud is reduced.

Status – The Town opened a new vendor bank account and designed procedures to reconcile the accounts on a monthly basis. However, we noted that the reconciliation is normally occurring three months after the month end close and that they still included unidentified reconciling items.
**Recommendation**

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

**Management’s Response**

The Town is reconciling all bank accounts within 60 days of month end. Our goal is to have all accounts reconciled within 45 days of month end.

**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 is usually delayed because critical procedures are either not performed on time or are performed too early in the process. As a result, there are delays in producing closing entries, trial balances, schedules, reconciliations, account analysis, and financial reports.

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

We recommended that the Town document its month-end closing procedures.

**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** – The Town is working to incorporate this into the budget process; however, no change occurred in Fiscal 2011.

**Recommendation**

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

**Management’s Response**

For FY 2012, the Town budgeted the required 53 payroll weeks. For FY2013 and beyond, the Town has committed to budgeting 52.2 or 52.4 weeks as required. The FY2013 budget guidelines require the calculation of 52.2 weeks as suggested by the auditors.

**POLICE DETAIL ACCOUNT**

**Prior Comment**

Since Fiscal 2007 the Police Detail Agency fund has had a significant negative cash balance. 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.

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 2011. During the current fiscal year the deficit increased from $572,817 to $661,000.

**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 continue to recommend that the Town implement the recommendations from an outside consultant hired to perform a more detailed review of this activity in Fiscal 2010. In the report that was issued, the consultant made recommendations to improve billing and collections.

**Management’s Response**

To date the Police Department has implemented all of the recommendations suggested in the outside consultant’s report. The Police Department has also taken aggressive steps to collect past due receivables and implement procedures to shut off delinquent accounts. 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.
ACCRUED COMPENSATED ABSENCES

Prior Comment

The Town does not have a centralized system to track and accrue unused earned sick and vacation time. The records for accrued compensated absences are presently maintained by the Department Heads. There is a need for the Town to centralize the system of tracking and accruing compensated absences to ensure compliance with 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 – Town has the capability to have a centralized system of reporting sick and vacation time through the MUNIS payroll system and to report the accrued time on an employee’s paycheck stub. However, this application has not yet been used.

Recommendation

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

Managements Response

The Town has been asking Departments to send that information to our Payroll Department monthly. Our Town administrator has been negotiating with our unions to implement this change. We are hoping to implement this effective January 1, 2013.

WATER AND SEWER RECEIVABLES RECONCILIATION

Prior Comment

We had previously noted that the Town did not have a reconciliation process in place for the water and sewer receivables. 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.

Status – No progress was made on this comment in Fiscal 2011.

Management Response

The Administration has engaged a consultant to work with the Public Works Department personnel to develop and implement proper reconciliation procedures for the Water and Sewer Billing function.
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 – The Town has implemented procedures to perform monthly reconciliations.

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 – The Town has hired an outside consultant to perform a fraud risk assessment and to prepare a formalized plan. Their report is in draft form and will be issued during FY 2012.
HEALTH CLAIMS TRUST FUND

Prior Comment

During fiscal 2010 the Town hired a consultant to conduct a review of the healthcare trust fund. The report, dated October 8, 2010, 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.

Status – The Town conducted another review through March 2011. That report, dated June 6, 2011, followed up on the recommendations of the previous report. Please see the current year comment related to this matter.
CURRENT YEAR COMMENTS
**ACCRUAL FOR SCHOOL ADMINISTRATION VACATION TIME**

**Comment**

As part of our audit of compensated absences we review the collective bargaining agreements each department to determine if the accrued sick and vacation time reported by the town agrees to the agreement.

We noted that per the agreement for school administration employees that only sick leave not used in any year may be accumulated. However, when testing the accrual for compensated absences, we noted that these employees have been credited with 530 days of unused vacation totaling $109,000. While this amount is not material to the financial statements it appears to be an exception to the collective bargaining agreement.

**Recommendation**

We recommend that the Town and School Department review the accruals for sick and vacation buy back to ensure that they are in compliance with the collective bargaining agreements.

We also recommend that individual contracts which are an exception to the collective bargaining agreement be forwarded to the Town Accountant’s office so that the compensated absence calculation can be verified and audited.

**Management Response**

Union contracts contain provisions for the use of vacation leave. Employees are allowed to carry over, from one year to the next, no more than their allotted vacation time for (1) one year. All employees are sent notification of the total number of days they have on record by July 15 of each school year. A letter is sent to those who have an accumulation greater than the allowance for that year in which they are asked to contact the Director of Finance & Operations with a plan for use of the excess time that they have on record. This procedure is followed annually.

**TAX LIENS RECEIVABLE RECONCILIATION**

**Comment**

During the current year we noted that the Town does not have a reconciliation process in place for tax liens receivables. Formal reconciliation procedures between the Treasurer’s office 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 tax liens receivable account on a monthly basis to ensure that the activity is properly accounted for.

**Management Response**

The Tax office does review the Tax lien list annually to make sure that all the properties in tax title are still not resolved or disclaimed. We will check with Town Accountant annually to make sure our balance equals what is recorded as a general ledger balance.
HEALTH CLAIMS TRUST FUND

Comment

The Town maintains a Health Claims Trust Fund (The Trust) to accumulate resources to provide health care to the current and retired employees of the Town. Contributions are made through employee withholdings and a Town appropriation. The Town utilizes Blue Cross Blue Shield and Harvard Pilgrim for the administration of claims. The Town maintains separate funds for each of these providers. During fiscal 2011 the Town hired a consultant to conduct a review of the healthcare trust fund. The report noted the following:

1. The financial position of the Blue Cross Blue Shield (BCBS) fund has been deteriorating over time and there is a deficit fund balance at fiscal year end. A deficit fund balance could negatively impact the Town’s free cash and the general fund operating budget due to an increase in premiums. To date, the overall negative impact of the BCBS fund has been offset by a surplus in the Harvard Pilgrim Health fund balance.

2. The BCBS rate changes implemented in January 1, 2011, do not appear did not have the desired effect as the performance of the fund was comparatively worse than in the prior year. Additionally, the current performance of the BCBS fund indicates another potential shortfall for FY2012.

3. The Treasurer’s Office and the Accounting Department are not reconciling the claims paid. Accounting only tracks the monthly payments made whereas the Treasurer monitors actual claims made.

4. The Treasurer’s Office and the Accounting Department are not reconciling the revenue amounts for each fund. Several variances were noted between the income and expense reports maintained by the Treasurer and the general ledger.

The report made the following recommendations:

1. Review the funds to determine how the current trends will affect the finances of the Trust Funds.

2. That the deficit in the BCBS Fund be raised on the FY2012 RECAP.

3. Reconcile the monthly deposits with actual claims made for both plans.

4. Reconcile the monthly revenues in these funds for both plans.

5. That the Treasurer’s Department and the Accounting office should work to reconcile the income and expenses of each fund between the income and expense reports prepared by the Treasurer and the general ledger maintained by the Accountant.

Recommendation

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

Management Response

The Town has implemented all of the recommendations in the health claims trust fund report.
MONITORING OF EMPLOYEE BENEFIT PLAN DOCUMENTATION

Current Year Comment

We noted during our review of employee health costs that periodic audits of employee benefit data have not been conducted. This type of review would allow the Town to compare current employee listings to the employee benefit roles, as well as whether the information documented for each employee’s withholdings amounts, marital status, number of dependents, beneficiary designations, union participation, etc. are accurate and complete.

Recommendation

We recommend that the Town consider implementing a periodic reconciliation process where all the employees benefit data is verified and checked for accuracy and completeness.

Management Response

The benefit office does perform a monthly review of active employees to make sure all our employees currently receiving benefits have the proper withholding from payroll of premiums due. We do not however have the staffing at this time to check every employee’s marital status and union participation is accurate.