TOWN OF BURLINGTON, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2012
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, 2012, 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.

January 7, 2013
# TOWN OF BURLINGTON, MASSACHUSETTS

## MANAGEMENT LETTER

**JUNE 30, 2012**

## 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>Vendor Bank Account Reconciliations</td>
<td>2</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>4</td>
</tr>
<tr>
<td>Accrued Compensated Absences</td>
<td>5</td>
</tr>
<tr>
<td>Water and Sewer Receivables Reconciliation</td>
<td>5</td>
</tr>
<tr>
<td>Accrual for School Administration Vacation Time</td>
<td>6</td>
</tr>
<tr>
<td>Tax Liens Receivable Reconciliation</td>
<td>6</td>
</tr>
<tr>
<td>Health Claims Trust Fund</td>
<td>6</td>
</tr>
<tr>
<td>Monitoring of Employee Benefit Plan Documentation</td>
<td>7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CURRENT YEAR COMMENTS</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust Fund Reconciliation</td>
<td>9</td>
</tr>
<tr>
<td>Investment Policy Adherence</td>
<td>9</td>
</tr>
<tr>
<td>Procurement Policy and an Integrated Purchase Order System</td>
<td>9</td>
</tr>
<tr>
<td>General Ledger Maintenance</td>
<td>10</td>
</tr>
<tr>
<td>Board of Selectmen Minutes</td>
<td>11</td>
</tr>
</tbody>
</table>
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.

Current Status

As part of our audit of cash we identified 19 outstanding checks in the vendor and payroll accounts that were greater than six month old, some dating back to 2011. It is the Town’s stated policy that checks will be moved into tailings after 90 days. However, no checks were added to the tailings account during Fiscal 2012.

In addition, the Town currently has two negative bank balances on the treasurer’s cashbook representing old outstanding checks for a closed vendor account and a closed ice palace account. Neither of these balances could be supported by a list of the outstanding checks.

As of June 30, 2012, the tailings liability account had a balance of approximately $16,000. The Treasurer was unable to provide a detailed listing of the checks that comprise the amount reported on the ledger.

Continuing Recommendation

The tailings account should be updated on a regular basis and 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.

Management’s Response

The Town was able to compile a list that will be maintained as the Tailings listing. The excess will be transferred to general cash, as suggested. If there is no response after contacting the payee, the Treasurer will place stale check over six months old in the tailings account.

VENDOR BANK ACCOUNT RECONCILIATIONS

Prior Comment

In prior years we had noted that the reconciliations for the vendor account were not occurring monthly. We also noted there were a significant number of unidentified reconciling items. We 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.
**Current Status**

The Town opened a new vendor bank account during fiscal 2012 and designed procedures to reconcile the accounts on a monthly basis. However, we noted that the vendor account had a year end unreconciled variance of approximately $19,000 that was unidentified. During our field work in November 2012 the treasurer was able to reconcile the variance.

**Continuing 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**

Management concurs with this recommendation. The Town was able to identify the variance and a bookkeeper was hired to reconcile bank accounts on a monthly basis.

**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.

**Current Status**

A formal schedule has been agreed upon; however, the adherence to the schedule is not occurring consistently. No improvements have been made in fiscal year 2012.

**Continuing Recommendation**

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

**Management’s Response**

Management concurs and during fiscal 2013, the Town Accountant and Town Treasurer will develop and implement the month-end closing schedule.
BUDGETING PAYROLL

Prior Comment

We noted in prior years that the Town 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.

Current Status

The Town appropriately budgeted for 53 payroll weeks as required in fiscal year 2012. On a go forward basis the Town has developed a formula to ensure the proper amount of payroll weeks are budgeted for.

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.

Current Status

No progress was made during Fiscal 2012. During the current fiscal year the deficit decreased from $661,000 to $586,000.

Continuing 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.

Management's Response

The Town has begun an implementation strategy to fund the deficit over a period of time and plans to determine the true deficit for better tracking purposes.
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.

Current 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. No progress was made during fiscal year 2012.

Continuing Recommendation

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

Managements Response

The Town is working on implementing a centralized system to automatically track sick and vacation time. This process is expected to be implemented before the end of fiscal 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. We recommended 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.

Current Status

An outside consultant was hired in fiscal year 2012 to help develop and implement proper reconciliation procedures for the Water and Sewer billing function. However, at year end the water and sewer user charges receivable balances had an unreconciled variance totaling approximately $224,000. In addition, the lien accounts had an unreconciled variance of approximately $47,000. The Town is working diligently to reconcile these variances and plan to have them completed within fiscal year 2013.

Continuing Recommendation

We continue to 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 Public Works Department and the Accounting Office completed the reconciliation of water and sewer receivables. These receivables will be reconciled on a monthly basis.

ACCURUAL FOR SCHOOL ADMINISTRATION VACATION TIME

Prior Comment

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

During the prior year we noted that the agreement for school administration employees states that only sick leave not used in any year may be accumulated. That being said, we also noted a vacation liability being accrued for school administrators. We recommended that the Town and School Department review the accruals for sick and vacation buy back to ensure compliance with collective bargaining agreements.

Current Status

The Town and School Department are following collective bargaining agreements as they relate to sick and vacation buy back policies. The School Administration employees are paid annually for any unused vacation days.

TAX LIENS RECEIVABLE RECONCILIATION

Prior Comment

We noted during the prior year that the Town does not have a reconciliation process in place for tax liens receivables. We recommended that formal reconciliation procedures between the Treasurer’s office and the Town Accountant’s office be implemented in order to ensure proper valuation of the accounts.

Current Status

The tax lien receivable account was reconciled between the Treasurer’s and Town Accountant’s office during the year leaving no unreconciled variances at year end.

HEALTH CLAIMS TRUST FUND

Prior 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.

Current Status

The Town implemented the recommendations noted above in fiscal year 2012.

MONITORING OF EMPLOYEE BENEFIT PLAN DOCUMENTATION

Prior Comment

In the past, 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.

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

Current Status

Periodic audits are performed on a quarterly basis by the payroll staff. Any issues noted are addressed immediately.
CURRENT YEAR COMMENTS
TRUST FUND RECONCILIATIONS

Comment

The Town’s trust fund balances recorded on the general ledger do not agree with the balance of the funds on deposit in the bank. These differences relate to either unrecorded activity in the bank accounts or on the general ledger. A lack of such reconciliation puts the Town at risk of basing financial decisions on inaccurate information, overspending trust fund balances, and improperly allocating interest income to the individual trust fund accounts.

Recommendation

We have recommended that the Town implement procedures to reconcile the Trust fund balances reported on the general ledger to the bank balances on a monthly basis.

Management Response

Management concurs and is planning on reconciling the Trust fund balances between the general ledger and the banks on a monthly basis.

INVESTMENT POLICY ADHERENCE

Comment

The Town’s investment policy states, “Investment in a single institution (other than MMDT) may not exceed 25% of the Treasurer’s cash balance at any time.” It was noted that 37% of the treasurer’s cash balance on June 30th 2012 was within one institution.

Recommendation

We recommend that procedures be put in place to ensure the Town is abiding by its investment policy.

Management Response

Management concurs with this recommendation and will change its investment policy to reflect the current working practices.

PROCUREMENT POLICY AND AN INTERGRATED PURCHASE ORDER SYSTEM

Comment

All procurement related documents, such as bids, quotes and contracts are being kept by individual departments instead of in a centralized location. This increases the risk that such documentation will not be available when needed for payment authorization and other Town purposes. It also increased the risk that an obligation may be incurred without the proper bids or quotes and not be detected by management.

Additionally, operating procedures do not require the use of purchase orders in all departments. Currently they are required only within the School and Department of Public Works. We believe that the use of purchase orders would benefit the Town by providing greater control over expenditures, through the requisition process, and would provide more accurate and useful financial information. Purchase orders can be reviewed to ensure allowability of costs, compliance with legal requirements, proper coding, and available funds in appropriations prior to authorization of a transaction.
Recommendation

We recommend that the Town complete a comprehensive evaluation of procurement process. Due to the size of the Town along with the ongoing construction projects throughout the Town, we believe that the Town should evaluate the benefits of hiring a fulltime procurement officer who can develop procedures that will assist the Town streamline and fully integrate the procurement functions within the Town. These potential changes can provide additional assurance that all bills being paid have the necessary bids, quotes and contracts that comply with state and local procurement laws and regulations.

Management Response

Management agrees with this recommendation and hopes to review the status of the procurement function within the Town in the upcoming year.

GENERAL LEDGER MAINTENANCE

Comment

Unsupported balances existed on the general ledger at year end that should be researched and corrected on a go forward basis. Specifically, the following issues were noted:

- Variances exist between the year-end warrants and the general ledger balances in the amount of $13,907 due to old voided checks and other errors that need to be cleaned up on MUNIS.

- The Town’s general ledger contains old balances in real estate, personal property, and motor vehicle receivable accounts dating back to 1997 that are unreconciled between the Collector’s support and the general ledger. The total unreconciled amounts for these three receivables combined in approximately $50,616.

- The Town’s general ledger contained unsupported liability balances that have been carried over from prior years totaling approximately $18,000.

- It was also noted the withholding liability accounts do not reconcile to zero on a monthly basis. Per review of the accounts it appears prior year activity is not clearing. These accounts should be reconciled at least annually and any activity that is still outstanding should be researched and accounted for.

- The Town Firearms account includes funds that are required to be turned over to the State and have not been.

Recommendation

We recommend these issues be researched and corrected on a go forward basis so the year end ledger balances contain accurate and supported amounts.

Management Response

The Accounting Office will review and adjust old general ledger accounts where appropriate.
BOARD OF SELECTMEN MINUTES

Comment

As of the end of our field work on November 7th 2012 the Town only had meeting minutes of the Board of Selectman available through May 2012. The minutes for all meetings are an important part of the Town’s records and should be prepared in a timely manner and kept in a safe place where they can be readily available and retained permanently.

Recommendation

We recommend that all minutes be prepared in a timely manner and be kept on file for permanent retention.

Management Response

The Town has engaged the services of a new recording clerk to maintain timely minutes. The backlog is currently in the process of being addressed.