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, 2014, 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.

December 1, 2014
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PRIOR YEAR COMMENTS
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

During fiscal 2014 the Treasurer opened a new vendor bank account and designed procedures to reconcile the accounts on a monthly basis. There were no unidentified variances for the vendor account at fiscal year-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 and implement month-end closing procedures.

Current Status

During fiscal 2014 a formal schedule was agreed upon and procedures have been implemented.
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

Significant progress has been made for police detail billing and collection practices during the year. As of January 1, 2014 the Police Department implemented the Police Detail Billing module of the IMC Time and Record Keeping Software package to replace the Access database billing system. Delinquent receivables were turned over to the Town’s Deputy Tax Collector for collection. Additional safeguards have been put into place to mitigate delinquencies at the time a detail is requested, up to and including the requirement of payment in advance. However, the Department has noted some inherent reporting limitations with the new system. These limitations have made it difficult to reconcile to the general ledger on a monthly basis. The Town is considering implementing a MUNIS billing module to track police details.

Continuing Recommendation

We continue to recommend that policies and procedures be implemented that would allow police detail receivables to be reconciled to the general ledger on a monthly basis.

Management’s Response

The Town will continue to explore enhanced software options that will allow for a complete reconciliation of Police detail operations. The department has implemented all of the other recommendations previously made by the auditor.

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. We recommended that sick and vacation time be tracked in a centralized and automated fashion.

Current Status

The Treasurer’s office is in the process of implementing a centralized system to track sick and vacation time. They are planning on implementing one department at a time, and are currently working with the Department of Public Works.
Continuing Recommendation

We continue to recommend that sick and vacation time be tracked in an automated system in a central location.

Management’s Response

The Town has been able to track unused vacation and sick time for the Accounting, Treasurer/Collectors, Police, Recreation and Department of Public Works departments as of 11/30/14. We are getting help to train our other larger departments and train all payroll clerks to begin this new process. We are hopeful to have this project completed by 6/30/15.

TRUST FUND RECONCILIATIONS

Prior Comment

We had previously noted that 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. We recommended that the Treasurer implement procedures to reconcile the Trust fund bank balances to the general ledger balances on a monthly basis.

Current Status

No significant progress occurred during fiscal 2014. At fiscal year end, we were not provided with a reconciliation between the trust fund bank balances and the general ledger.

Continuing Recommendation

We continue to recommend that the Treasurer implement procedures to reconcile the trust fund bank balances to the activity reported on the general ledger on a monthly basis.

Management’s Response

The Town does reconcile these accounts monthly to our bank statements. We have a spread sheet and have been working on balancing these accounts with the general ledger. We have identified small variances and will have them fully reconciled by 3/1/15.

CHAPTER 30B PROCUREMENT

Prior Comment

During the prior year we noted that 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.

**Current Status**

During the audit we tested the Town’s procurement procedures. As part of our testing we conducted a review of quotes and bids which were derived from a random sample of capital expenditures selected for the general ledger. All Departments included in the sample were able to provide supporting documentation.

At the beginning of fiscal 2015, the Town hired a full-time procurement officer. The procurement officer is currently working with Town departments to streamline the transition of all procurement information to a centralized location.

**PAYROLL ACCOUNT RECONCILIATION**

**Prior Comment**

We noted during the prior year audit that the Treasurer’s Office was not performing bank to book balance reconciliations for the Town’s payroll account on a monthly basis. At fiscal year-end, we noted, a significant number of unidentified reconciling items. In theory, this account is assumed to operate at a zero balance, as payroll disbursements are covered by a transfer into the account. The transfer should be the exact amount of the warrant making the only reconciling item to be outstanding checks and interest. We recommended that the payroll account be reconciled on a monthly basis.

**Current Status**

During the current year we noted a significant improvement in the payroll reconciliation process. Activity was identified and is being reconciled on the recommended monthly basis. There were a few unidentified variances, however not to the extent as prior year. The Treasurer’s office is currently in the process of identifying these variances.

**RECREATION DEPARTMENT**

**Prior Comment**

During the prior year we performed a review of the Recreation Department. During our review we noted that several policy changes within the Department had recently occurred, mostly involving cash collections, cash security, petty cash record keeping and other various administrative changes.

These policy changes were as follows:

- If the Recreation Department collects $100 or more in cash on any given day, the cash will be taken to the Treasurer’s Office to be held in the Treasurer’s safe until a bank deposit is made. This change was implemented in September 2014. The cash is counted by a staff member in the Recreation Department and will fill out a deposit slip and sign it. Cash is recounted by a staff member in the Treasurer’s Office.
who also signs off on the slip. The Treasurer’s Office and the Recreation Department both keep copies of
the signed slips. If the Recreation Department doesn't collect more than $100, they will bring the
collections over to the Treasurer’s Office on a weekly basis.

• The Recreation department has a safe that only three employees have the combination. The safe is now
locked at all times during the day when previously it had not been.

• The Recreation Department’s petty cash is now locked in the safe at all times. The Department has
recently implemented a three part withdrawal slip system for when a Director of a program requests
funds. Currently, when funds are requested by a Director, they will document (in the petty cash book)
how much they need, the date they were given the funds, and provide a signature. Three slips will be
issued, one to the Director, one to the Assistant Director of the Recreation Department, and one is kept in
the petty cash book. The slips state the Director’s name, date the transaction occurred, and the amount.
The program Director will have two weeks to return a receipt of how the funds were used as well as any
unspent funds.

• The Department implemented a cash, check and credit card handling policy for all staff members to
follow.

During our review of the Department we noted additional areas of improvement, they were as follows:

• When individuals register and pay for programs at the Recreation Department, they can pay with cash,
check and/or credit card. The department has a two part receipt system, a receipt is given to the
individual and one is kept with the Department. The staff member responsible for collections will enter
the individual's information into the Department’s software system. Once the transaction has occurred
the receipt will be attached to the cash/check and put in a basket located on a staff member’s desk. This
basket is unsecured and it could lead to potential theft as everyone in the office has access to it. We
further noted that a cash register is on-site however it is solely used for making change and not recording
transactions.

• The safe located in the Recreation Department has had the same combination for a long-time; not
changing the combination periodically or when an employee leaves can lead to potential security issues.

We recommended that the Department utilize the on-site cash register for recording collections during the day, as
opposed to the basket. We further recommended that the combination for the safe be changed periodically as
this would strengthen internal controls within the Department.

Current Status

The department has purchased a locked box for daily receipt collections that is kept under the counter. At the
end of each business day a cash journal is printed from the Departments system and reconciled to in-house
collections. The Department has also implemented a policy to change the combination of the safe.
CURRENT YEAR COMMENTS
FUTURE GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB)
STATEMENTS FOR PENSIONS AND OPEB

Comment

The GASB has issued new pronouncements that will significantly affect the accounting and reporting requirements for Pensions and Other Postemployment Benefits (OPEB). These new standards will start to phase in during fiscal year 2015 and will substantially impact your financial statements and will also affect the requirements for accumulating the necessary data to meet the reporting requirements.

The new standards that have been issued and their effective dates are as follows:

- The GASB issued Statement #67, Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #68 Accounting, and Financial Reporting for Pensions, an amendment of GASB Statement No. 27, which is required to be implemented in fiscal year 2015.

The GASB has also issued 2 exposure drafts which will similarly affect accounting and financial reporting for OPEB Plans. The GASB is encouraging earlier application of these standards.

To briefly summarize these new standards –

- GASB #67 and #68 will substantially change the reporting for pension liabilities and expenses. Changes in pension liability will be immediately recognized as pension expense or reported as deferred outflows/inflows of resources depending on the nature of the changes. Substantial changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes will be required. Current actuarial methods may continue to be used to determine funding amounts. Employers will report in their financial statements a net pension liability (asset) determined annually as of the fiscal year end. Net pension liability (asset) equals the total pension liability for the plan net of the plan net position. Pension liability is the actuarial present value of projected benefits attributed to past service, and plan net position is the accumulated plan assets net of any financial statement liabilities of the plan.
- Similar standards will be issued related to unfunded OPEB liabilities.

As a result of the new standards, the Town should expect to record significant pension and OPEB liabilities in the future.

Recommendation

We recommend that management begin to study and evaluate these changes for financial statement reporting and disclosure purposes, and to formulate plans to meet with your actuaries and financial advisers as more information becomes available. You may also want to consider how and when this information should be communicated to your constituents and other financial statement users.

Management Response

The Town will continue to monitor the requirements required by the implementation of future GASB statements and will work with our actuaries to ensure that the information necessary to comply will be available in a timely fashion.