

TOWN OF WATERTOWN, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2009

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To the Town Manager and Town Council
Town of Watertown
Watertown, Massachusetts

In planning and performing our audit of the financial statements of the Town of Watertown, Massachusetts as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Watertown's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

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 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 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

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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 several matters that are opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

This communication is intended solely for the information and use of management, Town Manager and Town Council, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

After you have had an opportunity to consider our comments and recommendations, we would be pleased to discuss them with you.

Melanson, Heath + Company P.C.

Andover, Massachusetts
November 8, 2010

FOLLOW-UP ON PRIOR YEAR RECOMMENDATIONS:

1. Formalize and Accelerate the Year-End Closing Process

Prior Year Issue:

In the prior year, the year-end closing and financial reporting process was substantially delayed.

Current Year Status:

During fiscal year 2009, the year-end closing process was again delayed.

Further Action Needed:

We continue to recommend that the Town develop formal closing procedures, which should include a checklist documenting who will perform each procedure, when completion of each procedure is due, and when it is actually accomplished. This will help ensure that the year-end closing process proceeds more timely and efficiently.

2. Establish Formal Departmental Receipt Procedures

Prior Year Issue:

In prior years, we recommended that the Town establish formal policies and procedures for handling departmental receipts.

Current Year Status:

We understand this issue was addressed in fiscal year 2010.

Further Action Needed:

None

3. Improve Compensated Absences Accounting

Prior Year Issue:

In prior years, we recommended that the Town centralize and automate the accounting for employee compensated absences.

Current Year Status:

The Town and School Department continue to maintain compensated absence records on separate systems that are not integrated with the Town's payroll systems. This has contributed to delays in completing the annual audit.

Further Action Needed:

We continue to recommend that the Town and School Department integrate the accounting for employee compensated absences in the MUNIS System in order to increase efficiency, provide improved controls, and create a better audit trail.

4. Formalize Controls over Petty Cash

Prior Year Issue:

In the prior year, we recommended that the Town prepare formal policies and procedures for the administration of petty cash funds. We further recommended the Town formally authorize fixed amounts to be maintained for each departmental petty cash fund, and for the maximum amount of any single petty cash disbursement.

Current Year Status:

We understand this issue was addressed in fiscal year 2010.

Further Action Needed:

None.

5. Establish Administrative Regulations

Prior Year Issue:

In prior years, we recommended that the Town develop formal regulations to provide current guidance over administrative policies and procedures. This would result in improved Town-wide consistency over many routine administrative procedures, such as travel and expense reimbursement, use of municipal vehicles, and insurance requirements on personal vehicles.

Current Year Status:

We understand this issue was resolved in fiscal year 2010.

Further Action Needed:

None.

6. Establish Receivable Write-Off Policy

Prior Year Issue:

In prior years, we recommended that the Town develop a formal write-off policy for all departmental receivables. This would result in more standardized practices throughout the Town.

Current Year Status:

This recommendation has not been implemented.

Further Action Needed:

We continue to recommend that the Town implement a policy for the write-off of uncollectible ice rink, police detail, and other miscellaneous receivables.

7. Improve Accounting and Monitor Activity over the Police Detail Agency Fund

Prior Year Issue:

In the prior year, we recommended the Town establish a police detail receivable account in the general ledger and reconcile it to the Police Department records. The cash deficit balance should be added to the receivable amounts to determine whether a true fund deficit exists. If a true deficit exists, an analysis should be performed to identify the cause and determine a corrective action plan.

Current Year Status:

No receivable account was established in the general ledger.

Further Action Needed:

We continue to recommend that a receivable account be established in the general ledger and that it be reconciled to the Police Department.

8. Evaluate Unsupported Encumbrance Balances

Prior Year Issue:

In the prior year, we recommended the Town research all encumbered balances to determine if an actual commitment exists. If no commitment exists for encumbered funds, they should be unencumbered, thereby becoming available to the Town for future use.

Current Year Status:

In fiscal 2009, most prior year encumbrances were either expended or closed out.

Further Action Needed:

We recommend the Town continue to monitor encumbered balances at year end.

9. Monitor Collateralization of Cash Balances

Prior Year Issue:

In the prior year, we recommended the Town consider increasing collateralization of major cash balances.

Current Year Status:

The Town still has major cash balances that are uncollateralized; however, we understand the Town monitors the financial strength of applicable financial institutions.

Further Action Needed:

We recommend the Town continue to monitor the financial strength of applicable financial institutions.

10. Establish FTC "Red Flag" Security Documentation

Prior Year Issue:

In the prior year, we recommended the Town establish the Red Flag documentation to assure compliance with the Federal Trade Commission Security requirements.

The rules can be found at:

www.ftc.gov/os/fedreg/2007/november/071109redflags.pdf

Current Year Status:

This issue was not resolved in 2009.

Further Action Needed:

We continue to recommend the Town establish the new required Red Flag security policies.

CURRENT YEAR RECOMMENDATION:

11. Consider Audit of Student Activity Funds

The accounting records of the School Department's student activity funds have not been audited in several years. This increases the risk that errors or irregularities could occur and not be detected.

We recommend the School Committee consider contracting for a formal audit of the student activity funds on an annual basis, and also perform periodic internal audits of those records. This will improve oversight and accountability and reduce the risk of errors or irregularities occurring and going undetected.

We understand the School Committee has contracted for an audit to be performed in fiscal year 2011, and that additional training will be provided to applicable student activity advisors and administrative personnel.