

TOWN OF WATERTOWN, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2011

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY LETTER	1
STATUS OF PRIOR YEAR RECOMMENDATIONS:	
1. Improve Compensated Absences Accounting	3
2. Establish Receivable Write-Off Policy	3
3. Improve Accounting and Monitor Activity over the Police Detail Agency Fund	4



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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, 2011, 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 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 their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not 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 was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. In addition, because of the inherent limitation in internal control, including the possibility of management's override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Additional Offices:

Greenfield, MA • Ellsworth, ME • Nashua, NH • Manchester, NH

During our audit we became aware of several other matters that we believe represent 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

March 28, 2012

STATUS OF PRIOR YEAR RECOMMENDATIONS:

1. 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. For the fiscal 2011 audit, the Town was not able to produce the June 30, 2011 compensated absence reports as of the completion of our audit fieldwork in March 2012. As a result the fiscal 2011 financial statements reflect estimated amounts for compensated absence liabilities based on prior year compiled amounts. This issue 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. This will improve accountability over the compensated absence liability and will help accelerate the year-end audit process.

2. 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.

3. **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 basis deficit fund balance should be added to the collectable 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.