

TOWN OF WAYLAND, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2013

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY LETTER	1
 <u>PRIOR YEAR RECOMMENDATIONS:</u>	
1. Develop a More Formal Risk Assessment Process	3
2. Formalize a Fund Balance Policy	3
3. Segregate and Monitor School Billing, Collection and Turnover Procedures	4
4. Examine the Use of Unauthorized Bank Accounts	4
5. Strengthen Departmental Receipt Controls and Perform Internal Audits	5
 <u>CURRENT YEAR RECOMMENDATIONS:</u>	
6. Improve Controls over School Disbursements	6
7. Improve Monitoring of Bond Issues and Expenditures	6



MELANSON HEATH & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

To the Board of Selectmen
Town of Wayland, Massachusetts

In planning and performing our audit of the financial statements of the Town of Wayland, Massachusetts as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Wayland'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.

During our audit, we became aware of 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, Board of Selectmen, and 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

December 30, 2013

PRIOR YEAR RECOMMENDATIONS:

1. Develop a More Formal Risk Assessment Process

Prior Year Issue:

In the prior year, we recommended that the Town implement a more formal risk assessment process that included written identification of areas where potential fraud or material misstatements to the basic financial statements may occur.

Current Year Status:

This recommendation has not been fully implemented.

Further Action Needed:

We continue to recommend that the Town implement a more formal risk assessment process that includes written identification of areas where potential fraud or material misstatements to the basic financial statements may occur including, but not limited to, the risks associated with related parties and potential conflict of interests.

2. Formalize a Fund Balance Policy

Prior Year Issue:

In the prior year, we recommended that the Town formalize a fund balance policy to provide guidance over the following areas:

- Required/desired level of General Fund unassigned fund balance.
- Required/desired level of Enterprise Funds unassigned fund balances.
- Specify prioritization of fund balance amounts when multiple sources are used for one project, grant or activity (i.e., general fund monies are appropriated to partially fund a capital project, or a grant match).
- Specify the body or official authorized to make assignments of fund balance and define time constraints on each assignment.
- Distinguish between encumbrances (commitments related to contracts not yet performed and orders not yet filled) and other assignments (previously called designations).
- Define an approval process for modifying existing assignments.

Current Year Status:

This recommendation has not been fully implemented.

Further Action Needed:

We continue to recommend that the Town formalize a fund balance policy addressing the above noted issues.

3. Segregate and Monitor School Billing, Collection and Turnover Procedures

Prior Year Issue:

In the prior year, we recommended that the Town and School Department work together to segregate and monitor the billing, collection, and remittance of receipts over various school programs including: BASE, Pegasus, METCO, and TCW. We further recommended that the Town and School Department review all programs to ensure that segregation of duties are well designed and operating efficiently.

Current Year Status:

During fiscal year 2013, the School implemented additional controls including installing a safe, increased frequency of deposits, and increased level of review by the Accounts Payable Department. However, the School's segregation of duties chart indicates that a single individual remains responsible for receipts and bookkeeping; thereby increasing the risk that error or irregularities could occur and not be detected.

Further Action Needed:

We continue to recommend that the School segregate the receipt collection and bookkeeping functions.

4. Examine the Use of Unauthorized Bank Accounts

Prior Year Issue:

In the prior year, we recommended that the Town determine if further examination of the unauthorized bank accounts should be conducted.

Current Year Status:

During spring and summer of 2013, the School Committee engaged a firm of Certified Public Accountants to review the transactions associated with these accounts and to further evaluate the programs noted in Comment 3. Their report was issued on August 27, 2013 and includes numerous recommendations for internal control improvement.

Further Action Needed:

We continue to recommend that the School follow through with the recommendation contained in the above referenced report.

5. Strengthen Departmental Receipt Controls and Perform Internal Audits

Prior Year Issue:

In the prior year, we recommended that the Town (1) strengthen its Receipt Policy by requiring a documented breakdown of cash versus check and requiring Finance to regularly provide departments with revenue reports for reconciliation with departmental logs, (2) annually remind departments of the departmental receipt procedures to be followed, and (3) regularly perform internal audits of departments to help ensure compliance with policy.

Current Year Status:

We understand that these recommendations are scheduled for implementation in fiscal year 2014.

Further Action Needed:

We recommend that the Town follow through and implement these changes during fiscal year 2014.

CURRENT YEAR RECOMMENDATIONS:

6. Improve Controls over School Disbursements

During our testing of School Department expenditures, we identified the following issues:

- The School Department reimbursed an employee for the purchase of technology equipment that appears to have been delivered to the employee's address. We also noted that the equipment did not appear to have been added to an inventory or capital asset report.
- Purchase orders were frequently created after items were ordered, thereby negating the effectiveness of a Purchase Order system.
- An employee was reimbursed for three days of traveling (mileage reimbursement) to a conference in Boston, when the employee attended the conference for only two days.

We recommend that the School Department re-examine its accounts payable process, including employee reimbursements, and establish and enforce policies and procedures that will eliminate the risks associated with the above noted transactions and provide improvement to the internal controls system.

7. Improve Monitoring of Bond Issues and Expenditures

The Town has a deficit in the High School Completion Capital Project Fund of approximately \$1.5 million. The deficit results because the full amount of the bonds authorized for the project have not yet been issued, and will be eliminated when additional bonds are sold. As a result, the fund has essentially borrowed general fund cash, and the Town's year-end Certified Free Cash has been reduced by the \$1.5m deficit. It appears that the fund first went into a deficit position in early fiscal year 2013.

We recommend that the Town begin the process of issuing the additional bonds necessary to eliminate the year-end deficit plus remaining project expenditures. We further recommend that the Town improve the system of monitoring the cash position of all individual capital project funds in order to avoid future deficits.