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June 20, 2014

Melanson Heath & Company, PC
10 New England Business Center Drive
Suite 107
Andover, MA 01810

RE: Town of Wayland, MA Management Letter for the Year Ended June 30, 2013

The following comments reflect the responses by the Town of Wayland Senior Management Team concerning the above-referenced Management Letter from the Town's auditors for the year ending on June 30, 2013. The Town Administration and the School Department consider all the comments listed by the auditors to be helpful to the overall accountability of our financial management and have provided a proactive approach to implementing reasonable and practical business practices to address the matters raised by the Audit.

1. Develop a More Formal Risk Assessment Process

Audit Recommendation:

We 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.

Management Response:

The Town has committed to develop 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. To that goal, the Town drafted a Risk Assessment, Prevention and Monitoring Program Policy which was provided to the Town's Auditor for review and comment with the intent of the Town Administrator finalizing the policy by October 30, 2014. Once finalized, the policy will be shared with all Town Departments. The policy as written is intended to be a starting point that will be updated moving forward. Risk Assessment will continue to be a major focus and a recurring item at meetings of the senior management team and department directors.

2. Formalize a Fund Balance Policy

Audit Recommendation:

We recommend that the Town formalize a fund balance policy to provide guidance over the following areas:

- Required/desired level of unassigned fund balance.
- Required/desired level of unrestricted net position.
- 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 any approval process for modifying existing assignments.

Management Response:

The Town Administrator, working cooperatively with all affected staff, Boards and Commissions, intends to bring forth a formal policy recommendation to the Board of Selectmen to address the issues raised by the auditors concerning the Town's fund balance. This formal policy will provide the town with reasonable and practical guidelines, assuring tighter controls on existing and anticipated fund balances related to bond receipts, grant revenues, town meeting appropriations for Capital projects, free cash, encumbrances and other unrestricted and/or unassigned funds. The Administration will consult with the affected statutory approval authorities regarding fund balance oversight and identify their specific authority to make assignments of these funds and develop time frames for expenditures and account closures for each designation under this policy. It is anticipated that responsible entities involved in this policy initiative will include the Finance Committee, the Board of Public Works, School Department and the Board of Selectmen.

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

Audit Recommendation:

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

Management Response:

The School Department created and filled a part-time position in May 2014 for the Wayland School Community Program to completely segregate the receipt collection and bookkeeping functions.

4. Examine the Use of Unauthorized Bank Accounts

Audit Recommendation:

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 program noted in Comment 3. Their report was issued on August 27, 2013 and includes numerous

recommendations for internal control improvement. We recommend that the School follow through with the recommendation contained in this report.

Management Response:

The School Committee engaged a team of Certified Public Accountants to conduct a Forensic Procedures Review, and received a status report of 34 recommendations for internal control improvement on October 21, 2013. The School Department is responding to these recommendations, many of which are complete or in process, by implementing policies and procedures where necessary and by providing staff training. The status report is scheduled to be updated at a June 2014 School Committee meeting and the policies and procedures are planned for implementation in the fall of 2014.

In response to the recommendation pertaining to the Use of Unauthorized Bank Accounts, the School Department conducted an examination of all bank accounts and completed an audit in fiscal year 2014, determining that all bank accounts were closed prior to fiscal year 2013. In addition, the Treasurer/Collector verified that unauthorized bank accounts are no longer in use.

5. Strengthen Departmental Receipt Controls and Perform Internal Audits

Audit Recommendation:

We recommend 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.

Management Response:

The Town recognizes and agrees with the strong recommendation by the Town's Auditor to regularly conduct internal audits of various departments and, for specific functions within those departments, to maintain compliance procedures and reinforce a strong receipt/expenses reconciliation policy. The Administration will consult with the appropriate Town authorities and agencies to recommend specific steps to implement a new internal audit control mechanism within the Finance Department during fiscal year 2015/2016. Under the overall direction and control of the Finance Director sporadic, discretionary "random spot" checks of receipts (cash and checks) and deposits will be reinforced and documented to ensure compliance with fiscally sound internal control business practices. The Administration will schedule continuing education and training for all administrative support personnel to reinforce their understanding of the policy, thereby assuring compliance.

The Treasurer/Collector implemented stricter departmental control procedures for receipt and handling of cash and checks in fiscal year 2011, to ensure that deposits are timely and documented to the individual department and the Finance Department. All departments are required to deposit cash and checks at a minimum of once per week and more frequently where substantial amounts of cash are involved. The Treasurer/Collector reminds all departments of these procedures on an annual basis.

6. Improve Controls over School Disbursements

Audit Recommendation:

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.

Management Response:

The Business Office is continually striving to improve these practices which developed over many years and has made significant progress in changing the culture and reducing occurrences. Over the past several years the school Business Office has responded to and made changes as a result of many audits, the latest being the Forensic Procedures Review which contained 34 recommendations, some of which addressed disbursements. The status of these recommendations was reported on in February 2014 and again in June 2014.

School employees are highly discouraged from placing an order ahead of receiving an approved purchase order and the disbursements are reviewed at multiple stages before being processed. Responses to the specific items that were cited are as follows:

- In this instance a teacher ordered and had Android tablets delivered to his home during the summer to ensure their availability for class in the fall. The teacher was reprimanded and the equipment inventoried.
- The sample size used by the auditor consisted of 12 purchase orders which resulted in a compliance rate of 75%. The school department conducted its own review on a January 6, 2014 warrant which consisted of 441 invoices and found a compliance rate of 92%.
- This error was made and did make it through the system due to human error. The employee has reimbursed the \$18.14. The small amount of the error contributed to it getting through.

7. Improve Monitoring of Bond Issues and Expenditures

Audit Recommendation:

The Town has a deficit in the High School Renovation 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 \$1.5 million 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.

Management Response:

The Town Administration recognizes that this was a one-time issue albeit the significance of this deficit related to the non-issuance of authorized bonds for the completion of the High School renovation, and that this resulted in a reduction to the Town's free cash position at the end of the fiscal year. The Administration will develop a formal policy for the Town Facilities Director, as the overseer for all significant Capital projects for the Town and School Department, to submit a quarterly cash flow needs projection to the Finance Director, the Treasurer/Collector, the Town Administrator and the School Superintendent, as well as the oversight-responsible elected board. Monitoring cash needs versus expenses and the adequacy of the availability of bond receipts will avoid the use of general funds at the conclusion of the fiscal year. This policy will be put into effect during the fall of 2014.

Thank you for your comprehensive and informative presentations to the Audit Committee, Board of Selectmen and citizens. We appreciate your comments and recommendations to assist us in reaching our goal of continuously improving financial reporting and municipal operations.

Respectfully submitted,

FOR THE BOARD OF SELECTMEN



Robert Mercier
Interim Town Administrator

cc: Thomas Greenaway, Chairman, and Members of the Finance Committee
Chris Cullen, Chairman, and Members of the Audit Committee