

**TOWN OF WAYLAND, MASSACHUSETTS**

**Management Letter**

**For the Year Ended June 30, 2014**

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**Additional Offices:**

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

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, 2014, 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. However, material weaknesses may exist that have not been identified.

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.

The Town's written responses to our comments and suggestions have 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, 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*

November 18, 2014

## **PRIOR YEAR RECOMMENDATION:**

### **1. 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:

- Establish required/desired level of General Fund unassigned fund balance.
- Establish 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:**

We were made aware that the Town Administrator is working with all affected boards and committees to formalize the remaining areas for this policy in fiscal year 2015.

#### **Further Action Needed:**

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

#### **Town's 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.

## **CURRENT YEAR RECOMMENDATIONS:**

### **2. Improve Automation in Tax Collector's Office**

The Tax Collector and Finance Department currently use different computer software programs for recording receipt and receivable activity. As a result, manual summaries must be compiled from computer-generated reports in order to communicate transactions between offices. This results in an increased potential for errors and an inefficient use of staff time. Further, because of the limited number of employees, the segregation of duties in the Tax Collector's Office could be enhanced.

We recommend the Town consider automation improvements in the Treasurer/Collector Office. Specifically, the software should contain some of the following features:

- Integration with the Town Accountant's records.
- Automated cash register and receipt validator.
- Automated daily cash-out function.
- Optical scanning of tax bills for posting receipts to customer accounts.

These features should result in improved efficiency, eliminating the need for many manual and time-consuming procedures as well as provide additional mitigating controls given the limited number of employees in the office.

Town's Response:

The Town uses both Munis and VADAR Financial Management Systems. The Town recognizes the need for a more automated process and is researching improved integration of the two systems. Discussions with both software vendors and with municipalities that use both systems are planned.

**3. Ensure Proper Allocation of Expenditures**

Several revolving funds continue to carry a year-end fund balance that represents a reserve of as much as six to twelve months of expenditures for that program. The higher than typical fund balance position may result from an incomplete matching of program costs against the program generated revenues. We recognize that in fiscal year 2014 and 2015 appropriations from several revolving accounts were made to fund past OPEB cost; however, many revolving fund balances continued to increase.

We recommend that the Town review the revolving funds to ensure that the applicable costs (expenditures) are charged to the fund, and not to the general fund appropriation, and/or prepare cash flow projections for all funds with significant surpluses and review/adjust program fees accordingly.

Town's Response:

The School Department operates forty-two revolving accounts. Five revolving accounts were identified as having balances that seemed to represent a reserve. An explanation of each follows:

- **Pegasus, The Children's Way and Full-Day Kindergarten**  
The balances reflect pre-payments for the following fiscal year.
- **The Food Service Program**  
The balance reflects pre-payments for the following fiscal year plus unassessed fringe benefit charges.
- **Before and After School Enrichment Program (BASE)**  
The balance is being addressed by:
  - Creation of new School Committee policy,
  - Review of all direct allocations,
  - Calculation of new per-pupil indirect cost allocation for operational and technological services,

- Review of fees,
- Review of, and improvement to, program led by new BASE director.

Additionally, the balances of the Ambulance fund and the Recreation revolving fund will be monitored. The Ambulance fund is maintaining a balance for the anticipated purchase of a new fire truck in fiscal 2017 or 2018. The Recreation Commission is reviewing the Recreation revolving fund and formulating a five-year revenue and expenditure projection to resolve the current fund balance.

#### **4. Improve Compensated Absences Accounting**

The year-end accounting of compensated absences (earned but unused sick and vacation time) for employees appeared inaccurate as the listing contained prior employees, ineligible employees, and changes to accrued hours that do not match the detail reports. As a result, the Town estimated the liability at 103% of the prior year balance.

We recommend that the accounting for employee compensated absences be automated and more rigorously reviewed at year-end.

##### **Town's Response:**

The Town and School Department recognize the need to properly report accrued compensated absence liability. The Munis generated Employee Flexible Liability Report (when properly calibrated) will provide a useful tool for monitoring earned, but unused, vacation and sick leave accruals for employees. The Town and School Department will monitor accrued balances semi-annually to ensure that the liability is properly reported.

#### **5. Improve Compliance with the Town's Cash Management Practices and Investment Policy**

For several years, the Town has not been in compliance with its Cash Management Practices that prohibits the investment of more than 10 percent of cash in any single financial institution that is not fully collateralized. We also noted that the Town's Cash Management Practices and the Investment Policy have different thresholds.



We recommend that the Town regularly review bank deposits and investment balances for compliance with Town's policies and also recommend that the Town revise the policies to be consistent and clear.

Town's Response:

The Town operated five bank accounts that were not collateralized. Reports have since been modified to better monitor the 10 percent requirement. Two accounts are now closed, two are substantially below the 10 percent limit, and the remaining account is now collateralized.

The Town recognizes that the Cash Management Practices and the Investment Policy have different thresholds and plans to address this inconsistency.