

***TOWN OF BRAINTREE, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2008***



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To the Honorable Mayor  
and the Town Council  
Town of Braintree, Massachusetts

In planning and performing our audit of the financial statements of the Town of Braintree, Massachusetts (Town), as of and for the fiscal year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Town's 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 a 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 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.

During our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

The Town's written responses to the *other matters* identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Wakefield, Massachusetts  
February 27, 2009

**TOWN OF BRAINTREE, MASSACHUSETTS**

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***OTHER MATTERS PREVIOUSLY  
REPORTED***

## **SOFTWARE CONVERSION**

### Comment

During fiscal year 2007 the Accounting Office upgraded its financial accounting system to the Kintera, *FundWare Financial Management System*; a product suite offered through DataNational who has been the Town's software vendor for its primary accounting systems. The Town successfully implemented the general ledger, accounts payable, and budgeting applications but significant work remains to understand and utilize the full capabilities of the system. This system, along with its interfaces to the traditional DataNational applications has many features and opportunities for systematic enhancements that the Town is currently not taking advantage of.

### Recommendation

In order to strengthen internal controls over financial reporting and to potentially improve operational efficiencies, we recommend that the Town meet with their software consultants to gain a more thorough understanding of the system's capabilities and its interaction with other software applications. A short and long-term plan could then be developed to analyze and address the overall needs of the Town's accounting and financial management systems.

### Management's Response

The Town has begun to implement a multiphase process beginning with the connecting of all departments to the Town's central accounting system. Departments will have access to account balances and reporting. Accounts payables will be input at the department level and will eliminate the duplication of effort. Payroll will follow and then the Treasurer receipts will be integrated into the accounting system

## **POST RETIREMENT HEALTH CARE REPORTING**

### Comment

The Town currently provides financial statement footnote disclosure specifying the amount expended to provide health care benefits to retirees and eligible dependents. Currently, the amount expended for post retirement benefits is recorded in the accounting ledgers as part of the overall employee benefits expenditure. As a result, staff must sort through monthly premium billings from various insurance carriers to determine the proper financial statement disclosure. With the implementation of GASB 45 quickly approaching efforts need to be made to eliminate the duplication of effort and to refine the controls over this process for financial statement reporting purposes.

### Recommendation

We recommend that management refine the current process so that amounts expended for post retirement healthcare benefits are readily identifiable in the general ledger. This would simply require adding additional general ledger accounts where this information could be recorded as incurred along with all other benefit information.

### Management's Response

The Town has had its first GASB 45 study. We are reviewing the report and changes being proposed and made at the state level to address its implications.

## **FRAUD RISK ASSESSMENT**

### Comment

The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Town perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Town's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the Town that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Town, its environment, and its processes. The fraud risk assessment process should consider the Town's vulnerability to misappropriation of assets.

When conducting the self-assessment, questions such as the following can be considered:

- What individuals have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicated potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- What assets of the Town are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.

### Recommendation

We recommend that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation. Department heads should provide information detailing any activities within their departments that may lend themselves to potential fraud, i.e. identification of idle cash or collections that don't get turned over daily or instances where internal controls over Town assets are not in place or are not functioning as intended.

## Management's Response

The Town recently changed its form of government electing a Mayor and Town Council along with a reorganization of many Town departments included adding the position of Town Auditor, recently appointed by the Town Council. The Auditor's position was designed to help improve internal controls within the Town. Part of the Auditor's charge is to prepare a fraud risk assessment and to work with management to develop and implement continued improvements to the internal control systems of the Town.

## **WATER AND SEWER BILLING AND SYSTEM OF INTERNAL CONTROLS**

The follow comments and recommendations have been presented in our Management Letters for the past several years. Although significant improvements have occurred we feel that the majority of the points mentioned were still applicable during the FY2008 audit. The following Comments and Recommendations have been repeated as originally reported.

### Comments

In our prior year Management Letter we reported that the "new billing system caused a significant disruption of normal operating procedures and has also raised questions about the accuracy and integrity of the financial operations of the Department". During the current year audit we met with Water and Sewer management and other departmental personnel as well as managers at Town Hall and updated the following at the Department:

- The apparent inability to implement changing rates and other pricing and billing policies as directed by the Board of Selectmen (Board). For example, we noted that a rate change intended to be implemented in July of 2006 was delayed several months without any communication or explanation as to the reasons for the delay.

### Management's Response

Rate changes are now a function of changing data tables for a specific type of service with 3 usage volume tiers. This should not be a problem with the present level of communication and system knowledge.

- We noted in prior fiscal periods that the Department had not been utilizing the lien process since the implementing of the new software which is not in accordance with Town policies.

### Management's Response

The lien process has been executed in October of 2007 and October of 2008; on time and in accordance to Town policies.

- We noted that a discount policy approved by the Board of Selectmen during fiscal year 2007 had not been successfully implemented.

### Management's Response

The discount policy of offering a \$5 reduction for bills paid within 30 days of billing date is now in place.

- During prior fiscal years we noted that monthly financial information necessary for the Department and the Town Accountant to reconcile monthly revenues, receipts, and month-end receivable balances had not been communicated on a consistent and timely basis. Some months apparently not at all.

Management's Response

A monthly report reconciling revenues, cash collections, and accounts receivable balances is now provided monthly by the office manager to the Director of Municipal Finance.

- We noted during our 2007 audit that accounts receivable aging reports were not calculating past due balances correctly and it has been difficult for departmental personnel to analyze and collect past due amounts.

Management's Response

The current accounts receivable reports show proper balances consistent with the reconciliation with revenues and collections. The aging calculation is a traditional function of days past due date.

- We were informed during our 2007 audit that the Department was behind in its billing of work orders for materials and labor to customers.

Management's Response

All material efforts are billed upon completion of parts list and hours prepared by system operations. Standard effort billings such as meter replacements and final reading inspections have been standardized to the work order codes and billed by the Electric Department. Smaller miscellaneous service efforts are billed at month end by the office manager.

- We were informed during our 2007 audit that customer inquiries were not always being responded to on a timely basis.

Management's Response

The procedure is for all calls to be logged into the customer service system. This provides a trail of call and resolution that can be validated. The mainstream service requests and inquiries are responded to on a timely basis.

- We noted during our 2007 audit that "non-usage" billings were being reported under only a miscellaneous category and management and others had lost the ability to track these other charges.

Management's Response

All material "non-usage" billings have a billing code which allows subsequent tracking for analysis. The use of the 'miscellaneous' code is restricted to infrequent non-recurring activity.

## **DEVELOP WRITTEN DISASTER RECOVERY PROCEDURES**

### Comment

Over the past few year's the Town and the School have begun the process of creating a well defined, written disaster recovery plan. We strongly encourage this process to continue and for management to monitor the plan on a regular basis in the future. The time to make contingency plans is before disaster strikes, so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing facilities.

### Recommendation

We recommend that management develop a disaster recovery plan for all departments that includes, but is not limited to, the following matters:

1. Location of, and access to, off-site storage.
2. A listing of all data files that would have to be obtained from the off-site storage location.
3. Identification of a backup location (name and telephone number) with similar or compatible equipment for emergency processing. (Management should make arrangements for such backup with another organization, a computer vendor, or a service center. The agreement should be in writing.)
4. Responsibilities of various personnel in an emergency.
5. Priority of critical applications and reporting requirements during the emergency period.

### Management's Response

We are in the process of building a redundant server farm at the Braintree Police Headquarters building; complete with HVAC setup and generator power. Our goal is to replicate approximately 10 high business need servers to keep business running. All servers will be accessible from the Internet. We have completed about 65% of this requirement. We continue to do daily backups of all our data, stored on tape and stored at an offsite location every night.

## **INTERNAL CONTROL POLICIES AND PROCEDURES MANUAL**

### Comment

We noted that most departments do not maintain a formal internal control policy and procedures manual documenting day-to-day processing and controls. Recently the Town has experienced turnover in the accounting and finance group and has implemented significant operational changes with the public works department and the water and sewer fund. The Town is at risk if critical tasks cannot be completed due to extended or unforeseen absences and for undocumented operational changes such as the implementation of the trash fee and the upgrade of the accounting software for water and sewer billing system. A formal internal control policy and procedures manual would assist each department head with training, documenting, and assuring the continuity of operational policies and procedures that have been approved by management.

Recommendation

We recommend that each department head develop an internal control policy and procedures manual that includes proper reviews and approvals by management. The document should be written with sufficient detail to allow a new employee the ability to complete the task by reviewing its respective directions. This document should be updated for any system or policy changes. A master manual of all procedures should be maintained and stored in a secure location. In addition, all department heads should be familiar with all policies and procedures within their office and be able to complete all necessary tasks in order to sufficiently train employees.

Management's Response

We agree with the comment as this has been demonstrated by the turnover in key staff positions in certain departments. Management will address this over the next fiscal year.

**ADOPTION OF FORMAL POLICIES CONCERNING CAPITAL ASSET ACTIVITIES AND IMPLEMENTATION OF A PROCESS FOR MAINTAINING THIS INFORMATION**

Continuing Comment

The implementation of GASB #34 required the Town to identify and record its Capital Assets. Since the initial compilation and analysis of the capital asset listing, no formal policies and procedures have been established concerning the maintenance of the data base or the acquisition and disposal of capital assets. The Town continues to utilize the original spreadsheet provided by the consulting company that performed the original analysis and has made modifications to the spreadsheet for fiscal years 2003 through 2008.

Continuing Recommendation

To ensure that property records are properly maintained and that purchases and disposals are handled consistently with Town policies, we recommend that formal policies and procedures be adopted and communicated to all applicable personnel. In addition we recommend that the Town investigate its options for purchasing a system that will facilitate this process. The original spreadsheet has been modified significantly since it was originally prepared and the integrity of the data and the internal controls over the entire process should be of considerable concern to management.

Management's Response

We agree with this recommendation and management will address this over the next fiscal year.