

***TOWN OF BRAINTREE, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2009***



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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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Braintree, Massachusetts (Town), as of and for the fiscal year ended June 30, 2009, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

The Treasurer's office has been operating for most of the fiscal year without a full staff. Because of the staffing issues cash receipts were not being posted in a timely manner and monthly reconciliations of cash and accounts receivable were also not being done.

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. We consider the following deficiencies to be significant deficiencies in internal control.

During our audit we also became aware of several 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 4, 2010

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# **CURRENT YEAR COMMENTS**

## ***SIGNIFICANT DEFICIENCY***

### **TREASURY OPERATIONS**

#### Comment

During the majority of fiscal year 2009 and continuing into fiscal year 2010, the Treasurer's office has been operating with less than a full staff. The Town Finance Director has been appointed interim Treasurer/Collector and is overseeing the day-to-day operations. Certain tasks have not been completed on a consistent basis including the timely postings of cash receipts to the general ledger and monthly reconciliations of cash and accounts receivables to the general ledger balances and to the Accountant's balances. The department has retained the help of a part-time outside consultant to assist in getting the cash postings and bank reconciliations brought up-to-date but this situation continues to exist.

#### Recommendation

In order to strengthen internal controls over financial reporting and to safeguard the Town's assets we recommend that management should take whatever actions may be necessary to ensure that the day-to-day activities of the Treasury Department are being completed on a timely basis and that detailed reconciliations with the general ledger balances and with other departments are occurring on a routine basis as prescribed by management.

#### Management's Response

We have hired a new Assistant Treasurer/Collector following a retirement. The Treasurer/Collector position will be resolved by the end of the fiscal year. New procedures have been put in place with respect to the cash deposit and cash receipts reporting systems to eliminate the duplication of effort in the office. Treasury staff is being trained on the new reporting and reconciliation procedures. The Town will be purchasing the treasurer cash receipts reporting module which will have the Treasurer's Office inputting the cash receipts directly into the general ledger system.

## ***OTHER MATTERS***

### **DETAILED RECEIVABLE RECORDS**

#### Comment

We noted several instances where the summary reports used to reconcile the Collector's receivable balances to the general ledger did not agree to the detailed individual records to support those balances. The variances could be due to the criteria selected when running the reports. However, the discrepancies were not identified or corrected as part of the normal reconciliation process.

#### Recommendation

We recommend the Collector's office research the variances between the detailed listings of receivables and the summary reports which are reconciled to the general ledger and implement procedures to ensure that all receivable summary balances be supported by detailed records.

Management's Response

The collectors department is working with the town accountant's office to reconcile the accounts receivable balances on a monthly basis. It is anticipated that the hiring of the new Treasurer/Collector will eliminate the backlog.

**MONITORING OF EMPLOYEE BENEFIT PLAN DOCUMENTATION**

Comment

During our 2009 audit of the Town we inquired about whether a comprehensive review of employee benefit documentation has been performed by the Town and we were informed that it has not been. Our inquiries related to comparisons of current employee listings to the employee benefit roles and as to whether the information documented for each employee's withholding amounts, marital status, number of dependants, beneficiary designations, union participation, etc. has been recently verified.

Recommendation

We recommend that the Town consider implementing a periodic reconciliation process where all of the employee benefit data is verified and checked for accuracy and completeness.

Management's Response

The Town is currently in the process of upgrading its payroll program. Included in the process will be the review of the employee information and updating of this information will include emergency contact information and home or cell phone numbers.

**TRACKING OF HEALTH INSURANCE PAYMENTS**

Comment

There are a number of instances where the non-employer portion of health insurance premiums is not available to be withheld from an employee/retiree's weekly paycheck. These situations occur for employees that don't earn enough to be able to have the full withholdings made, seasonal employees, individuals on COBRA insurance, etc. We noted during our audit that the current process is to initially notify the individuals of what they should be remitting to the Town monthly and then this information is manually tracked without any other regular notifications. It was brought to our attention that during the fiscal year there were periods of time where payments were lagging for several months or more.

Recommendation

We recommend that management should consider implementing a system that would generate month invoices for these required payments and would then track the payment activity. A simple QuickBooks application may provide the solution at a minimal cost.

Management's Response

The Town has purchased QuickBooks and is in the process of creating a monthly billing file. We will be mailing out and tracking on a monthly basis the health insurance payments for all not currently with withholding from the weekly payroll system.

## **FINANCIAL REPORTING OF COMPENSATED ABSENCES**

### Comment

The Town's payroll system has the capability to record and maintain accrued compensated absences. However, the information does not readily lend itself to being able to accrue a year end total liability for financial reporting purposes. The raw employee data appears to be tracking properly however the information is not being manipulated to conform to the various collective bargaining agreements and policy limitations. Considerable time was spent at year end to estimate the overall liability for financial statement purposes.

### Recommendation

We recommend the Town develop procedures to conform this information to facilitate reporting a complete and accurate total liability for external financial reporting purposes. We believe that the payroll department has the necessary information available and that time needs to be devoted to developing a system of identifying the varying departmental obligations that conform to the collective bargaining agreements and other Town policies.

### Management's Response

The Town is currently in the process of upgrading its payroll program. The payroll has the ability to track sick and vacation time for town employees in the payroll system. The system also has the capability to present the information on the weekly pay checks and provide management with periodic reports.

## **OTHER POST-EMPLOYMENT BENEFITS ACTUARIAL VALUATION**

### Comment

Now that the Town has met the requirements for implementation of GASB Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, it is time to acknowledge the requirements necessary to stay in compliance with the GASB and obtain the information necessary to complete the Town's annual audit.

For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more, or at least triennially for plans with total membership of fewer than 200.

This means that an updated actuarial valuation dated January 1, 2009 will have to be obtained in order for the Town to remain compliant with GASB Statement #45, for fiscal years of 2010 and 2011. This is two years after the original January 1, 2007 valuation which was used for both the fiscal year 2008 and fiscal year 2009 audits.

### Recommendation

We recommend that the Town work with their actuarial firm to assure that information needed for the next valuation report is provided in ample time for the fiscal year 2010 audit.

### Management's Response

Management agrees with the comment and is in the process having a new valuation completed.

## ***Informational Comment***

### **GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) STATEMENT #54**

#### Comment

In February 2009, the GASB issued Statement #54, *Fund Balance Reporting and Government Fund Type Definitions*, which is required to be implemented in fiscal year 2011. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund types, capital projects fund types, and permanent fund types are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

### Recommendation

As it appears that this GASB Statement will significantly impact the fund balance classifications presently reported, we recommend that management begin to study and evaluate these changes for financial statement reporting and disclosure purposes, and to formulate plans to be used in explaining these changes to interested parties within the Town and to the external users of the Town's financial statements.

### Management's Response

Management agrees with the recommendation and will be prepared to provide the necessary information to implement the Statement and to explain the changes to our users.

# **OTHER MATTERS PREVIOUSLY REPORTED**

## **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 2009.

### 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.