

## Approved Minutes

Town of Wayland

Audit Committee Minutes

Date: September 10, 2012

Time of Meeting: 6:45 p.m.

Place of Meeting: Wayland Town Building, 2<sup>nd</sup> floor Small Conference Room

Members Present: Tony Boschetto, Gordon Cliff, Chris Cullen, Ben Downs, Chris Riley

### 1. Call to Order

Meeting was called to order at 6:59 p.m. by Chris R.

### 2. Assign minute taker.

Gordon was nominated to take minutes.

### 3. Discuss School Committee ("SC") financial review RFP with SC Member

Shawn Kinney attended in accordance with his role as the SC's liaison with the Audit Committee. Shawn provided background on the rationale for the RFP. The RFP was developed by the SC and was sent to four firms that were recommended as experts in this area based on the recommendation of Rebecca Chasen, who at one point was Chair of the Operational Review Committee and had the most relevant experience in this area.

Shawn volunteered that he thought we should request additional information from the respondents, particularly around relevant experience with conducting similar projects for other Massachusetts local governments. Ben pointed out that the RFP should clarify that the scope of the second stage of the project should be characterized as an "audit" rather than a "financial review". After a point raised by Gordon to get respondents to provide further detail Tony suggested that we ask respondents as part of the deliverables of the first phase is to articulate the agreed upon procedures that should be used in the second stage. Tony also pointed out that we should make clear that the Firms understand that it is expected that the end products from the first phase will be shared with other Firms and serve as the basis for Firms proposing for the second phase of the project.

It was agreed that Shawn would clarify several specific points around the RFP and request additional information from the four respondents as noted above.

### 4. Public comment

Donna Buchard made a number of suggestions relative to the proposed SC audit project, including: 1) make sure the scope of additional work has no redundancy with work that has already been done, 2) accounts that were opened with new EINs and that have not been closed, 3) deliverables from any new work should be clearly articulated, 4) the traceability of journal entries, 5) availability of payee information for Loker School, and 6) Happy Hollow information prior to 2007. On the Town Audit she raised concerns she had mentioned during Public Comment in a previous Audit Committee meeting on employee benefit accounts and encumbrances as stated on the FY-11 balance sheet.

5. Review/discuss/amend/approved minutes from 8/27 meeting.

The minutes were reviewed, discussed and amended. The committee approved the amended minutes 5-0.

6. Discuss potential special assignments for Melanson Heath as provided in Article 2.6 of the Agreement for provision of Auditing Services.

After discussion the Audit Committee voted 5 to 0 to support the request of the Finance Committee as articulated in a letter from William Steinberg to Fred Turkington, John Bladon, and Chris Riley dated Aug 21 that the Town Auditor review accounting for premium payments for health insurance.

The Committee discussed other items as suggested by Tony in his Audit Committee preliminary notes dated July 27. Focusing on his recommendation on p. 3

1. Chris C. agreed to develop proposed language relative to a more detailed segregation of amounts for employee benefits.

2. Resolved by the Finance Committee request as noted above.

3. and 4. Defer until more information is obtained about the additional audit the SC is contemplating.

5. Debated as whether we should take any action specifically on encumbrances as stated on the FY-11 Balance sheet. All agreed that we ask MH to focus on BS accounts as of FY'12 to make sure any encumbrance amounts are stated correctly.

7. Next Meeting is set for October 1<sup>st</sup> at 7 pm. Items to be discussed include:

1. Continue to discuss and vote recommendations to BOS of areas where extra focus or expanded attention may be appropriate.
2. If available, discuss responses from auditing firms re: School Committee 7/27/12 request for proposal.

8. Adjournment

A motion was made, seconded, and unanimously voted to adjourn. The meeting was adjourned at 8:55 pm.

Respectfully submitted,

Gordon Cliff

Documents:

School Committee RFP 7/27/12

Audit Firms (4) responses to School Committee RFP

Draft Minutes 8/27/12

Melanson Heath Agreement for Accounting Services

Letter from Bill Steinberg, Chair of Finance Committee 8/21/12

Letter from Tony Boschetto 8/27/12

Anthony Boschetto

July 27, 2012

Audit Committee preliminary notes

With respect to our discussion on the scope of services provided by M&H as part of the annual financial statement audit.

I reviewed some public records and had the following notes.

Based on my research and the concerns of at least several residents, the following issues appear to warrant closer attention as part of the annual audit:

1. Unclassified expenses in total, and more specifically Health Insurance 32 B expenses, represent in total 10% of the budget. Insurance 32 B is 8-10% alone. At ATM, residents identified that large appropriations were budgeted to fund Insurance 32 B to cover annual insurance expenses. Proper breakout of these expenses by appropriate item was not provided, resulting in what appears to be an unauthorized use of funds.

The Report of the Finance Committee in the 2011 Annual Town Meeting Warrant specifically states:

“...as part of our financial management plan, the Town has been making payments of approximately \$1 million per year since FY2009 (to OPEB).”

This didn't happen. A \$750,000 appropriation was made to OPEB in 2008. This was not identified by the Finance Committee as part of their financial management plan and the balance in the account is contrary to the total of approximately \$4 million that should be in the account had the financial management plan been executed. After further review with the Finance Committee it appears that proper authorization from the Finance Committee was not given for these additional payments.

2. In addition, it was identified that large amounts of money which were withheld from the employees for the purpose of funding health insurance which were commingled in this account, putting the reconciliation of the taxpayer contribution and the employee contribution in question. It is unclear if the employee portion of health insurance is being properly funded since a proper reconciliation is not available.
3. A \$500,000 “designated fund balance” was recorded in the restricted fund balance when this amount was unencumbered and should have been included in Free Cash Balance. Additionally, the amount reported to the Mass DOR and the amount reported on the MUNIS general ledger differ. The “designated fund balance” was misrepresented to DOR as an encumbrance.
4. Abrahams report findings- numerous findings and reclassifications, but more importantly the off ledger principal discretionary accounts. These were opened by parties unknown who applied for and received tax ID numbers from the IRS, without the knowledge or consent of the Town Treasurer. These tax ID numbers (EIN's) are still active and should be researched by the IRS on behalf of the Town so the responsible parties who opened these accounts can be contacted and penalties, fines,

interest and back taxes for remuneration made from these accounts can be deciphered immediately and interest earnings can be reported. The Auditor's scope includes procedures to evaluate Town's compliance with all regulatory and reporting requirements. Such information could have been determined as a finding.

5. When the Auditors were asked if they were aware of the Abrahams study, they said yes. When asked if they reviewed their preliminary findings as part of their audit procedures, they said no.

From this data, it is unclear to me if there is an issue with the scope of the services or the competency of the auditing firm. We should, at the very least, insist that we receive a written statement from Melanson and Heath responding to these specific issues and 1) if they were identified in their Audit Procedures and 2) if identified, what was the basis of their resolution impact on the financial statements and related management report.

I have also identified the following information with respect to the competency of our audit firm.

1. Hamilton Wenham replaced M&H

[http://articles.boston.com/2012-02-26/north/31094355\\_1\\_district-budget-reserve-fund-town-meetings](http://articles.boston.com/2012-02-26/north/31094355_1_district-budget-reserve-fund-town-meetings)

**"In the Hamilton-Wenham Regional School District, a cash audit's finding of additional funds of approximately \$1.636 million in the district's coffers confirmed what many suspected.**

**"The process has been a very constructive one," said School Committee chairwoman Alexa McCloughan, who praised the work of new auditing firm Powers & Sullivan, brought in to replace Melanson & Heath & Co."**

2. Saugus replaced M&H

<http://www.wickedlocal.com/saugus/news/x2112948452/As-I-See-It-column-Gaming-the-Saugus-system#axzz1sy34nj00>

**"After presenting the findings last week, the Board of Selectmen voted to send a letter to accounting firm Melanson Heath, which had previously been conducting audits for the town, informing it that its services were no longer required."**

<http://itemlive.com/articles/2012/04/26/news/news06.txt>

**"Selectmen vice Chairman Steve Castinetti said he was troubled by previous auditing firm Melanson Heath giving Saugus a "clean bill of health," and asked if violations should have been picked up. Powers said it "could have" been picked up."**

3. Manchester replaced M&H

<http://www.gloucestertimes.com/opinion/x709154642/Editorial-Administrators-answers-in-public-forum-shed-proper-light-on-harbor-issues>

**“In a nutshell, Melville told the selectmen he became aware of discrepancies throughout Manchester's mooring records shortly after taking the administrator's job in April 2007. And he asked the town's auditing firm at the time — Melanson and Heath — to review the harbor records in addition to those of other departments.**

**A year later, he said, he found the auditors had failed to do so — a comment that raises new concerns on its own. By 2010 — when Starkey's allegations first hit the spotlight — the town's new auditing firm, Powers and Sullivan, found that the 2007-2009 records could not be reconstructed.”**

My recommendations with respect to the scope of the audit are as follows:

1. Unclassified expenses and Insurance 32 B- a complete accounting of all activity in this account should be reconstructed for FY'10, FY'11 and FY'12 by an independent firm to clarify all issues concerning commingling.
2. Employee WH account for insurance expenses- a clear reconciliation of employee w/h amounts and payments for health insurance should be performed and analyzed to determine how huge surpluses built up in this account. Were town employees properly charged to fund their share of insurance expense. Further, a clear look at our required management of employee fiduciary accounts should be evaluated and appropriate policies and procedures recommended.
3. A complete review of the Abrahams report and analysis of impact on historical financial statement and impact on internal controls.
4. \ review of the Principal's discretionary accounts and impact on the annual financial report and/or impact on recommended findings with respect to appropriate internal controls.
5. A reconciliation of FY'11 encumbrances (schools and Town) to determine if free cash was properly and accurately reported in the Town's Financial Statements in manner consistent with encumbrances reported to the DOR.

Further- given some of these issues, we should deliberate as to whether or not we should honor the contract with M&H immediately versus put a formal RFP together to open the contract to additional professional firms, to include Melanson & Heath. Wayland has the authority to terminate the contract without cause with 7 days notice.

## AGREEMENT FOR PROVISION OF AUDITING SERVICES

This Agreement is entered into this twentieth day of May, 2011 between the Town of Wayland, Massachusetts, a body politic and corporate of the Commonwealth of Massachusetts (the "Town"), with offices at 41 Cochituate Road, Wayland, Massachusetts 01778, and Melanson Heath & Company, P.C., an entity organized under the laws of the Commonwealth of Massachusetts having a usual place of business at 10 New England Business Center Drive, Suite 107, Andover, Massachusetts 01810 (the "Contractor").

In consideration of the mutual agreements by the parties contained herein, the Town and the Contractor agree as set forth below.

### **ARTICLE 1. CONTRACT DOCUMENTS**

1.1 The contract documents consist of this Agreement and the other documents and specifications enumerated below or referred to in such other documents or specifications. The contract documents are all as fully a part of this Agreement as if attached to this Agreement or repeated herein. The Contract Documents are as follows, with terms used herein having the meanings assigned to such terms in such Contract Documents:

Request for Proposal for Annual Audit Services dated March 3, 2011, including any specifications and Contractor's Proposal entitled "Technical Proposal for Audit of Financial Accounts and Records for the Years Ended June 30, 2011 - 2013" submitted on April 1, 2011

### **ARTICLE 2. SCOPE OF WORK**

2.1. The Contractor shall perform annually an audit of the Town of Wayland financial statements including presentation of comparative financials as of June 30, 2011; June 30, 2012; and June 30, 2013 and for the years then ended. The Contractor shall also perform annually an audit of the financial statements associated with the Town's operations. Each annual audit shall be performed in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards (most recent revision) issued by the Comptroller General of the United States 2010. The Contractor shall plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, including examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation, and issuing a report thereon. The work of the Contractor shall conform to the terms of the Specifications. The Contractor shall annually provide the Town with thirty (30) copies of the combined financial statements, together with auditors' reports, which shall be spiral or otherwise bound.

2.2. The Contractor shall, in connection with each annual audit, perform tests and report on the Town's compliance with applicable laws, regulations, contracts, and grants.

2.3. The Contractor shall, in connection with each annual audit, review the Town's internal control structure and assess control risk, report on material weaknesses noted, and inform and confer with management and the Members of the Board of Selectmen and other boards so designated regarding recommendations.

2.4. The Contractor shall provide from time to time, during the term of this Agreement, advice and consultation with respect to accounting matters and shall, at the request of the Town Administrator, provide brief written responses with respect to appropriate procedures and appropriate interpretations of the Contractor's reports.

2.5. The Contractor shall, in connection with each annual audit, schedule and participate in conferences, meetings, and briefings in accordance with the Specifications.

2.6. The Contractor will perform special assignments at the request of the Town Administrator. Special assignments may include audits or reviews of specified accounts or projects. No such assignment shall be performed, nor shall the Contractor be entitled to receive compensation therefore, unless the Town Administrator has authorized the assignment in advance, in writing, specifying the scope of the activity and the total compensation.

### ARTICLE 3. COMPENSATION

3.1. The Contractor's compensation for all services rendered in connection with Paragraphs 2.1 through 2.5 of this Agreement, inclusive of all fees and expenses, shall be as follows:

<u>Fiscal Year Ended</u>	<u>Town Audit</u>	<u>EOY Compliance Supplement</u>	<u>Total</u>
June 30, 2011	\$ 29,000	\$ 4,500	\$ 33,500
June 30, 2012	\$ 29,000	\$ 4,500	\$ 33,500
June 30, 2013	\$ 29,000	\$ 4,500	\$ 33,500

3.2. Compensation for any special assignment shall be based upon a project fee for such assignment. Prior to the commencement of any special assignment, the Contractor shall propose to the Town in writing a project budget, including the Contractor's proposed fee (expressed as a total dollar amount), and all other expenses, together with a proposed work plan and timetable for executing the assignment. The Town Administrator may approve the proposal, return the proposal for revisions, or reject the proposal. In no event shall the Contractor be entitled to compensation or reimbursement for any service or expense unless undertaken in accordance with a project budget (or amendment thereto) which has been approved in writing by the Town Administrator.

3.3. Within fourteen (14) days after the execution of this Agreement, and annually thereafter, the Contractor shall submit to the Town Administrator a schedule for payment, reflecting the



Contractor's best estimate of monthly work flow for the ensuing year. Such schedule shall be subject to review and approval by the Town Administrator, such approval not to be unreasonably withheld. Such schedule, when approved by the Town Administrator, shall be incorporated in this Agreement and used as a basis for payment to the Contractor, provided that such payment schedule shall be adjusted as reasonably determined by the Town Administrator in the event that there shall be a change in the work plan or timelines thereunder, or in the event that the actual level of effort required of the Contractor during any period differs materially from the anticipated level of effort for such period upon which such schedule was based.

3.4. The Contractor shall submit to the Town Administrator a monthly invoice setting forth the amount due for the preceding month (a) for services rendered in connection with Paragraphs 2.1 through 2.5; and (b) for special assignments, if any. Each invoice shall include a detailed breakdown of each amount and the sum of all prior payments. The Town Administrator shall review each such invoice and may make such exceptions or adjustments as may be necessary to bring such invoice into conformity with the terms of this Agreement. Within thirty (30) days after submission of each such invoice, the Finance Department shall make payment to the Contractor in the amount approved, subject to Paragraph 3.5.

3.5. The Town shall not be obligated to make any payment to the Contractor hereunder if and to the extent that the Contractor is in material default of its obligations hereunder; or any part of such payment is attributable to services which are not performed in accordance with this Agreement, provided that payment shall be made as to the part thereof attributable to services which were performed in accordance with this Agreement.

#### **ARTICLE 4. FURTHER RESPONSIBILITIES OF CONTRACTOR**

4.1. The Contractor shall perform its services hereunder as expeditiously as is consistent with the standards of professional skill and care required by Paragraph 4.6. The Contractor shall adhere to the time lines set forth in the Specifications and each approved work plan. Time is of the essence of this Agreement. Time lines may be modified by mutual agreement of the parties. If the Contractor is hindered or delayed in the commencement or progress of the work by any act or omission of the Town, or unforeseeable causes beyond the control and not caused in whole or in part by fault or negligence of the Contractor, the Contractor shall be entitled to an extension of time reasonably needed to complete the work or portion thereof affected by the delay, provided the Contractor shall give prompt written notice of the delay, stating the causes and proposing a modification of the affected time lines.

4.2. The Contractor shall defend, indemnify, and hold harmless the Town of Wayland, its officers and employees from and against any and all claims, demands, actions, including actions for personal injury or wrongful death, actions for property damage, and any other types of claims asserted by third persons alleging a violation of law or for any other cause, arising from or related to the Contractor's performance, acts, or operations relating to this Agreement; provided, however, that this obligation to defend, indemnify and hold harmless shall not apply, as to any liability, loss, expense or claim, to the extent the Contractor demonstrates that such liability, loss, expense or claim (a) is caused by the Town; (b) is attributable to

misrepresentations by the management of the Town in any written communication to the Contractor on which the Contractor has relied in performing its services; or (c) is a liability, loss, expense or claim for which the Contractor is prohibited from indemnifying a client under any standard or ruling of the American Institute of Certified Public Accountants.

4.3. The Contractor shall maintain throughout the duration of this Agreement Errors and Omissions coverage in an amount not less than \$1 million. The Contractor shall provide a certificate of such insurance issued by a corporation licensed or authorized by the Commissioner of Insurance to do business in Massachusetts. In the event that the Contractor represents that it is self-insured, the Contractor shall provide evidence satisfactory to the Town Administrator which reasonably establishes that the Contractor has assets to support the amount self-insured. The Town may terminate this Agreement, without affecting any coverage secured by the Contractor hereunder, if the Town Administrator finds that the Contractor has failed to establish the existence of or maintain assets to support the amount of self-insurance claimed.

4.4. The Contractor shall maintain in confidence all business information pertaining to the Town which becomes available to the Contractor in connection with its services under this Agreement. All data and information developed by the Contractor in the performance of this Agreement shall become the property of the Town and shall not be disclosed by the Contractor without the prior express written approval of the Town Administrator, nor shall the Contractor make any use of such data or information for any purpose other than the fulfillment of the Contractor's obligations pursuant to this Agreement. All right, title and interest, including copyright, to all data, information and other work product generated or created pursuant to this Agreement, shall be and remain in the Town. Notwithstanding anything herein to the contrary, the Contractor shall be entitled to retain ownership and control of its working papers to the extent required by professional standards promulgated by the American Institute of Certified Public Accountants. In the event the Contractor receives a subpoena or other validly issued administrative or judicial process requiring the production of materials subject to this Paragraph 4.4, the Contractor shall promptly notify the Town Administrator so as to provide the Town an opportunity to prevent production, and shall thereafter be entitled to comply with such subpoena or process to the extent required by law.

4.5. The parties acknowledge that the services to be performed under this Agreement require a special relationship of trust, cooperation, and good faith between them. The Contractor therefore agrees that he shall not accept engagements adverse to the interests of the Town in the subject matter of this Agreement.

4.6. The Contractor agrees that the performance of services under this Agreement shall conform to the professional standards promulgated by the American Institute of Certified Public Accountants and any other generally applied ethical and professional standards established by appropriate authorities.

## **ARTICLE 5. NON-DISCRIMINATION**

5.1. The Contractor shall not, in connection with the performance of work under this Agreement, discriminate against any employee or applicant for employment because of race, color, religion, creed, national origin, ancestry, age, sex, handicap, or disability. The Contractor shall post in conspicuous places in the Contractor's offices located within the Commonwealth of Massachusetts, available for employees and applicants for employment, such notices as are provided by the Massachusetts Commission Against Discrimination setting forth the provisions of the Fair Employment Practices law of the Commonwealth.

5.2 The Contractor shall ensure that all employees, including supervisory employees, assigned to provide services under this Agreement within any facility of the Town shall have been instructed, prior to such assignment, regarding laws and regulations against harassment and other forms of discrimination based on sex, race, color, religion, creed, national origin, age, disability, and sexual orientation. The Contractor shall provide each such employee assigned to perform work under this contract with a copy of the Town's personnel policies prohibiting discriminatory behavior (or with a copy of the Contractor's own such policies, if substantially to the same effect). The Contractor shall ensure that its employees do not engage in any form of behavior which would contribute to a hostile work environment for employees of the Town or other contractors of the Town, and, shall, upon becoming aware of any such behavior through notice from the Town or otherwise, take prompt and effective corrective action.

#### **ARTICLE 6. PROJECT MANAGER; ACCOUNT STAFFING**

6.1. The Contractor shall, in conformity with the Request for Proposals and the Contractor's Qualifications Statement, designate a project manager and project staff, and shall not substitute any individuals therefore unless such individuals meet the requirements stated in the Request for Proposals. The Contractor shall notify the Town Administrator in writing in advance of proposed changes in the project manager and project staff, and such changes shall be subject to the approval of the Town Administrator, provided such approval shall not be unreasonably withheld. The project manager shall be available and responsible for giving prompt attention and regard to the requests, inquiries and instructions of the Town Administrator relating to the fulfillment of this Agreement.

6.2. The Contractor acknowledges that continuity in the staffing of the work to be performed under this Agreement will contribute significantly to the efficient prosecution of such work. The Contractor agrees to exercise its best efforts to maintain continuity in the staffing of such work throughout the term of this Agreement. In the event of any changes in such staffing, the Contractor shall be responsible for ensuring that newly assigned staff members are fully briefed, by the Contractor's staff, as to the Town's accounting procedures.

#### **ARTICLE 7. NOTICES**

7.1. The Contractor shall provide all notices and invoices in connection with the performance of this Agreement to the Town Administrator at 41 Cochituate Road, Wayland, MA 01778 or to such other individual as the Town Administrator may from time to time in writing direct. The Town Administrator shall provide all notices and claims to the project manager designated by

the Contractor or to such other individual or individuals as the Contractor may set forth in claim procedures provided to the Town Administrator. All notices shall be in writing.

## **ARTICLE 8. DEFAULT; TERMINATION**

8.1. The occurrence of any of the following events shall be a default under this Agreement:

(a) the Contractor shall file a voluntary petition in bankruptcy or proceedings in bankruptcy shall be instituted against it and shall not be dismissed within 120 days after filing, or any court shall take jurisdiction of the Contractor and its assets, pursuant to proceedings brought under the provisions of any federal reorganization act, or a receiver of the Contractor's assets shall be appointed, or an assignment shall be made for benefit of creditors, or the Contractor shall permanently be prevented by any final action of any federal or state authority from conducting or operating its business;

(b) the Contractor shall fail to perform, keep or observe any term, covenant or condition herein contained which, because of its character, would immediately jeopardize the Town's interest;

(c) the Contractor shall fail to perform, keep or observe any other term, covenant, or condition herein contained within thirty (30) days after notice from the Town;

(d) the Contractor abandons in whole or in part its services provided for by this Agreement or becomes unable to perform its services under this Agreement; or

(e) any other event expressly identified as a default or material breach or a ground for termination under this Agreement shall occur.

8.2. Upon the occurrence and continuance of a default, the Town may terminate this Agreement by giving notice to the Contractor, may exercise any other legal or equitable right or remedy which it may have, or both. In the event of such termination, the Town may, but need not, procure, upon such terms and in such manner as it may deem appropriate, services similar to those provided for hereunder without prejudice to any other rights and remedies for default the Town may have. The Contractor shall be liable to the Town for reasonable additional costs for such similar services.

8.3. The Town Administrator may terminate this Agreement without cause by delivery of written notice to the Contractor at least seven (7) days prior to the date of termination. In the event of termination pursuant to Paragraph 8.2 or this Paragraph 8.3, the Contractor shall deliver to the Town any and all work or work in progress produced under this Agreement prior to its termination, and the Town shall, upon receipt of such work, pay the Contractor the reasonable value of said work less any set-off for damages caused by the Contractor in the event that the termination was for cause as set forth above.

## **ARTICLE 9. TERM**

9.1. This Agreement shall commence on May 20, 2011, and shall continue through May 31, 2014.

#### ARTICLE 10. MISCELLANEOUS

10.1. The Contractor's rights, duties and obligations under this Agreement may not be assigned, transferred, subcontracted or delegated without the express prior written approval of the Town in its sole discretion.

10.2. The Contractor is engaged under this Agreement as an independent contractor and not as an agent, employee or partner of the Town.

10.3. No member, director, officer, joint venturer, beneficiary, consultant, volunteer, participant, employee, agent or representative of the Town shall be personally liable to the Contractor under any term or provision of this Agreement for the Town's payment obligations or otherwise, or because of any breach hereof, the Contractor agreeing to look solely to the assets of the Town for the satisfaction of any liability hereunder. In no event shall the Town be liable to the Contractor except for payment for services rendered pursuant to and in accordance with this Agreement, nor shall the Town ever be liable to the Contractor for indirect, incidental, special or consequential damages.

10.4. This Agreement shall be governed by and construed and enforced in accordance with the laws of the Commonwealth of Massachusetts.

10.5. This Agreement may be amended only by a written instrument executed by the Town and the Contractor.

10.6. The Contractor shall familiarize its employees assigned to perform services under this Agreement with the provisions of Massachusetts General laws, Chapter 268A (the Massachusetts conflict-of-interest law) and the Town's Policy & Procedures Manual as said manual relates to gifts and gratuities from "interested parties."

IN WITNESS WHEREOF, the Town and the Contractor have executed this Agreement as of the date and year first written above.

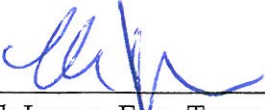
**FOR THE TOWN OF WAYLAND, MASSACHUSETTS**



Frederic E. Turkington, Jr., Town Administrator



Michael DiPietro, Finance Director/Town Accountant  
As to availability of funds



Mark Lanza, Esq., Town Counsel  
As to form

FOR MELANSON HEATH & COMPANY, P.C.



Scott C. McIntire  
Vice-President



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS  
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May 12, 2011

Michael F. DiPietro  
Finance Director  
Town of Wayland  
41 Cochituate Road  
Wayland, MA 01778

Dear Mr. DiPietro,

We are pleased to confirm our understanding of the services we are to provide the Town of Wayland, Massachusetts for the year ended June 30, 2011. We will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements, of the Town as of and for the year ended June 30, 2011. Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the Town's basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic and historical context. As part of our engagement, we will apply certain limited procedures to the Town's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

*Additional Offices:*

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

- Management's Discussion and Analysis
- Supplementary OPEB information

Supplementary information other than RSI also accompanies the Town's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the basic financial statements taken as a whole.

- Schedule of Expenditures of Federal Awards

### **Audit Objectives**

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the basic financial statements taken as a whole. The objective also includes reporting on:

- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The reports on internal control and compliance will each include a statement that the report is intended solely for the information and use of management, the body or individuals charged with governance, others within the entity, specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of accounting records, a determination of major program(s) in accordance with Circular A-133, and other



procedures we consider necessary to enable us to express such opinions and to render the required reports. If our opinions on the financial statements or the Single Audit compliance opinions are other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

### **Management Responsibilities**

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. Management is also responsible for identifying government award programs and understanding and complying with the compliance requirements, and for the preparation of the schedule of expenditures of federal awards in accordance with the requirements of OMB Circular A-133. As part of the audit, we will assist with the preparation of your financial statements, schedule of expenditures of federal awards, and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements, schedule of expenditures of federal awards, and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the management representations letter our assistance with the preparation of the financial statements and schedule of expenditures of federal awards and that you have reviewed and approved the financial statements, schedule of expenditures of federal awards, and related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee any nonaudit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them. We will prepare the trial balance for use during the audit. Our preparation of the trial balance will be limited to formatting information into a working trial balance based on management's chart of accounts.

Management is responsible for establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met and that there is reasonable assurance that government programs administered in compliance with compliance requirements. You are also responsible for the selection and application of accounting principles; for the fair presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town and the respective changes in financial position and, where applicable, cash flows in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us and for ensuring that management and financial information is reliable and properly recorded. Your responsibilities also include,

identifying significant vendor relationships in which the vendor has the responsibility for program compliance and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be available for our review. You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principle. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon or make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon.

Management is responsible for establishment and maintenance of a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

### **Audit Procedures-General**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

### **Audit Procedures-Internal Controls**

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be neces-

sary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and OMB Circular A-133.

### **Audit Procedures-Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Town's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Circular A-133 Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the Town's major programs. The purpose of those procedures will be to express an opinion on the Town's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

### **Engagement Administration, Fees and Other**

We understand that your employees will prepare all cash, accounts receivable, or other confirmations we request and will locate any documents selected by us for testing.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. We will provide copies of our reports to the Town; however, it is management's responsibility to submit the reporting package (including financial statements, schedule of

expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and a corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits.

The audit documentation for this engagement is the property of Melanson Heath & Company, P.C. and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to a Cognizant or Oversight Agency or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Melanson Heath & Company, P.C. personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release or for any additional period requested by the Cognizant or Oversight Agency. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the parties contesting the audit finding for guidance prior to destroying the audit documentation.

Scott C. McIntire, CPA, is the engagement officer and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them. Our fee for these services will not exceed \$ 29,000 for the Financial Statement audit, and \$ 4,500 for the End-of-Year Report audit.

Should the Town receive or expend stimulus money from the American Recovery and Reinvestment Act of 2009, additional fees will need to be agreed upon. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

*Government Auditing Standards* require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our latest peer review report will be provided at your request.

We appreciate the opportunity to be of service to the Town and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

*Melanson Heath & Company P.C.*

Melanson Heath & Company, P.C.

RESPONSE:

This letter correctly sets forth the understanding of the Town of Wayland, Massachusetts.

By: *Julia S. [Signature]*  
Title: *Town Administrator*  
Date: *June 1, 2011*

**From:** "William Steinberg" <bills@saxeinvestments.com>  
**To:** "Frederic E. Turkington Jr" <fturkington@wayland.ma.us>, "John Bladon" <jb.snowtree@verizon.net>, "chris riley" <gcriley@comcast.net>  
**Sent:** Monday, August 20, 2012 10:39:59 PM  
**Subject:** Review of Accounting For Employee and Town Payments For Health Insurance Premiums

Fred, John and Chris:

I am writing to you on behalf of the Finance Committee.

The Finance Committee has been provided with information regarding the accounting for employee and Town payments for health insurance premiums to West Suburban Health Group. It is our understanding that the funds from the two parties were incorporated into a single account and that the premium payments were then made from this single account. Subsequent to our discussion of this issue this evening, we are recommending that the Town auditor include a review of the accounting for these premium payments in their annual audit of the Town's finances. There are a couple of reasons why we think this would be an appropriate portion of their audit: a) we want to make certain that the correct amounts were paid by both the Town and by the employees; and b) we think that the Town should make certain that the accounting going forward is clear and precise such that we can all understand how these payments for health insurance premiums are being made.

Given that our vice-chair, Tom Greenaway, is an accountant, I am opening this to him for any clarification or other information he would like to add to this request.

Please let us know if you have any comments, questions or concerns with regard to this request.

Thanks.

Bill

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