

Minutes April 30, 2013
Town of Wayland
Audit Committee

Date: April 30, 2013
Time: 7:00 pm
Place: Wayland Town Building

Members Present- Gordon Cliff, Ben Downs and Chris Riley

1. Call to order
 - a. The meeting was called to order at 7:01 pm by Chris Riley
2. Assign minute taker
 - a. Chris Riley
3. Public comment.
 - a. None
4. Review/discuss/amend/approve minutes from March 26 and April 7, 2013
 - a. The committee accepted and approved both sets of minutes (after correcting one typo to the 3/26/13 minutes) 3-0
5. School RFP update – waiting for return of signed contract from Powers & Sullivan.
6. Outgoing correspondence
 - a. Chair will email Chair of School Committee to inform of vacancy on Audit Committee.
 - b. Chair will email Powers & Sullivan after contract signing to reiterate Audit Committee's role as liaison.
7. FY 2013 Audit Timeline
 - a. Scott McIntyre from Melanson Heath (Town's audit company) reviewed the audit phases
 - i. Phase 1 (May thru July) – Detail test work, compliance, internal controls, risk assessment, 1st trial balance review. Review Town's response to Management Letter
 - ii. Phase 2 (August thru mid September) – Update and reconcile cash, receivables. Trust fund review. Books closed by mid to late September
 - iii. Phase 3 (October thru December) – Complete YE Audit
8. Misc. audit discussion
 - a. Audit Committee and Auditor agreed to implement CAFR (comprehensive accounting financial report) in FY 2014 Audit report.
 - b. Auditor and Audit Committee agreed to work together during all three phases of Audit and to address issues as they arose rather than wait for the draft statements in December.
9. Management letter recommendations

- a. # 1 – Town Administrators (Fred Turkington and Brian Keveny) agreed to draft a written Risk Assessment Process by 9/1/13.
- b. # 2 – Town Administrators agreed to draft a written fund balance policy by 9/1/13.
- c. # 3 – Town Administrators agreed to put in place procedures to monitor school billing, collection and turnover by 7/1/13.
- d. # 4 – Town Administrators will contact local financial institutions to search for other bank accounts that might be held in Town’s name by 5/31/13. Separately, the School department will retain an independent auditor to review prior use of unauthorized bank accounts.
- e. # 5 – Finance Department has hired an employee who, once trained, will be conducting internal audits. This employee will also be responsible to review department compliance with the 2009 written receipt process.
- f. # 6 – Town Administrators will prepare to implement GASB 68 (recognize unfunded pension liabilities) in FY 2015.
- g. # 7 – As of 7/1/12 Town Administrators have correctly posted the Employee contributions to the monthly insurance premiums. Balance paid from Insurance 32B account. Reconciled monthly.

10. Meeting adjourned at 8:00 pm

Respectfully submitted,

Chris Riley

Documents

1. FY2013 Management Letter

TOWN OF WAYLAND, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2012

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To the Board of Selectmen
Town of Wayland, Massachusetts

In planning and performing our audit of the financial statements of the Town of Wayland, Massachusetts as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Wayland's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. In addition, because of the inherent limitation in internal control, including the possibility of management's override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Additional Offices:

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

During our audit, we became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

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

After you have had an opportunity to consider our comments and recommendations, we would be pleased to discuss them with you.

Melanson, Heath + Company P.C.
January 2, 2013

CURRENT YEAR RECOMMENDATIONS:

1. Develop a More Formal Risk Assessment Process

The Town informally performs its own risk assessment for possible fraud or material misstatements through various policies and procedures and regular reviews of trends in the financial statements. Risk assessment is a management function designed to identify where an organization may be vulnerable to errors and/or irregularities. A complete risk assessment process involves a written description of risk areas identified by those charged with governance (management and elected officials) and a description of how the organization intends on responding to the risks. As part of this process, the Town should pay particular attention to its assessment of the Control Environment; specifically, the risks associated with related parties and potential conflicts of interest. Specific monitoring activities to address these risks should be documented and implemented as well.

We recommend that the Town implement a more formal risk assessment process that includes written identification of areas where potential fraud or material misstatements to the basic financial statements may occur. Regular department head meetings could be used as a starting point for such risk assessment discussion.

2. Formalize a Fund Balance Policy

The Town does not have a formal (written) fund balance policy to guide the Town in maintaining a required or desired level of unassigned fund balance and set policy over other types of governmental fund balances. As a result, the Town's unassigned fund balance has fluctuated considerably over the past two years, and inconsistent classification of other types of governmental fund balance may exist. The other types of government fund balance includes non-spendable, restricted, committed, and assigned, the definitions of which can be found in the Town's basic financial statements.

Specific items that should be addressed in a fund balance policy include (but are not limited to):

- Required/desired level of unassigned fund balance.

- Required/desired level of unrestricted net assets.
- Specify prioritization of fund balance amounts when multiple sources are used for one project, grant or activity (i.e., general fund monies are appropriated to partially fund a capital project, or a grant match).
- Specify the body or official authorized to make assignments of fund balance and define time constraints on each assignment.
- Distinguish between encumbrances (commitments related to contracts not yet performed and orders not yet filled) and other assignments (previously called designations).
- Define any approval process for modifying existing assignments.

We recommend that the Town formalize a fund balance policy to provide guidance over the above noted areas.

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

A lack of segregation of duties exists, as the School Department is currently responsible for billing and collecting/handling/remitting receipts of many substantial programs including: BASE, Pegasus, Global language, Tutoring, Enrichment, Kindergarten, METCO and TCW. As a result, this increases the risk that errors or irregularities could occur and not be detected.

We recommend the Town and School Department work together to segregate and monitor the billing, collection, and remittance of receipts over the above noted programs. We further recommend that the Town and School Department review all programs to ensure that appropriate segregation of duties are in place. This will strengthen internal controls over the receipts and disbursement over these programs.

4. Examine the Use of Unauthorized Bank Accounts

In fiscal year 2012, several bank accounts used by the School Department were identified that were not previously under the control of the Town Treasurer or accounted for in the Town's general ledger. We understand that the Town has taken steps to close these accounts and further understand that the Town is considering performing additional analysis on these accounts.

Based on our general review of the accounts, we concur with the Town's approach of further examination.

We recommend the Town review the monthly bank statements of these previously unidentified bank accounts to gain an understanding of the amounts and nature of the transactions to determine whether further examination should be conducted. We further recommend that the Town contact local financial institutions to search for other bank accounts that may be in the Town's name.

5. Strengthen Departmental Receipt Controls and Perform Internal Audits

While the Town has a written receipt process, we found several Departments were not following the required procedures. As a result, inconsistencies exist between how departments collect, record and turn over monies, which increases the risk of errors or irregularities occurring and going undetected. We further noticed that the Finance Department does not regularly perform internal audits of departments to help ensure compliance with policy.

We recommend the Town provide a copy of the Receipt Policy to each department as an annual reminder of the procedures to be followed. Compliance with the Receipt Policy will improve documentation and control over departmental receipts, and may reduce the risk of errors or irregularities from occurring and going undetected. Prior to re-circulating the policy, the Town should review and strengthen the policy by requiring a documented breakdown of cash versus check and requiring Finance to regularly provide departments with revenue reports for reconciliation with departmental logs. We also recommend the Finance Department establish a schedule for periodic internal audits of departmental accounting records. Implementation of these recommendations will result in improved oversight and should reduce the risk of errors or irregularities occurring and going undetected.

6. Prepare to Implement GASB 68

Beginning in fiscal year 2015, the Town is required to implement the Governmental Accounting Standards Board (GASB) Statement 68 – *Accounting and Financial Reporting for Pensions* that will require the unfunded pension liability be recognized on the Town's Statement of Net Assets, including enterprise

funds. It is widely expected that the implementation of this accounting standard will have a material impact on the Town's basic financial statements.

We recommend the Town begin planning for the implementation of GASB 68, which includes gaining an understanding of the new requirements, educating applicable financial statement users, and ensuring that the Town's applicable portions of unfunded retirement system's unfunded liability is audited and available for inclusion in your financial statements. We will be monitoring best practices for implementing this standard across the state and will provide guidance in the coming year.

7. Correct Posting of Employee Withholding Accounts

The Town's total monthly insurance premium payments (employee and employer portions combined) were posted against the health insurance appropriation, followed by the Town posting a correcting journal entry to allocate the cost between the employee withholding balance (a liability account) and the appropriations. Those adjustments were estimated based on the employees share of health insurances and were not based on actual amounts of employee contributions.

We recommend that the Town properly allocate the costs to the employee withholding accounts through the MUNIS payroll system. We further recommend that the Town reconcile the withholding accounts on a monthly basis to assure that the systems are properly allocating the payments.