

**TOWN OF SAUGUS, MASSACHUSETTS**

**Management Letter**

**For the Year Ended June 30, 2009**

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To the Board of Selectmen  
Town of Saugus, Massachusetts

In planning and performing our audit of the financial statements of the Town of Saugus, Massachusetts as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Saugus, Massachusetts' 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 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 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.

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

The Town's written responses to the matters identified in our audit have not been subjected to the auditing 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, Board of Selectmen, and others within the Town, 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.*

Andover, Massachusetts  
February 23, 2010

## **FOLLOW-UP ON PRIOR YEAR ISSUES:**

The following issues were reported in the prior management letter, but have not yet been fully resolved.

### **1. Establish Internal Audit Function**

#### Prior Year Issue:

Internal audits are an important control measure to provide some assurance that procedures are actually being performed in accordance with management's assertions, and that assets actually exist and are properly safeguarded. The Town historically has relied on the independent auditor to perform these functions. This reliance, however, increases the risk that errors or irregularities could occur and not be tested or detected by management. In addition, the COSO framework explicitly states that management is responsible for performing internal audits.

#### Current Year Status:

The Town Accountant performed two internal audits during the current year.

#### Further Action Needed:

We recommend the Town continue to perform internal audits of various departments.

#### Town's Response:

The Town will continue to perform internal audits of various departments in the future.

### **2. Monitor Collateralization of Cash Balances**

At June 30, 2009, the Town had approximately \$ 15 million on deposit which was only partially secured by FDIC and DIFM insurance. Since FDIC insurance generally covers only the first \$ 250,000 in each bank, at June 30, 2009, the Town had approximately \$ 7 million on deposit that was in excess of the insurance. In the event of a bank failure, these deposits would be at risk.

We recommend the Town establish formal written cash investment policies, and consider increasing collateralization of major account balances. In order

for the additional collateralization to be perfected (enforceable) with the FDIC, the Town must enter into formal agreements with its financial institutions that are in writing, be approved by the financial institution's board of directors or board delegated committee (as recorded in their minutes), and be continuous for the duration of the agreement. Also, it is recommended that pledged collateral equal to at least 102 percent of the Town's deposit level, be held at an independent third party institution, and be controlled by the Town so that any changes in collateral would require the Town's written approval. Taking these measures will help protect the Town's cash balances from losses during the current period of economic uncertainty.

Town's Response:

As a result of the Fiscal 2008 audit, when this was brought to the attention of the Town Treasurer, discussion began with the financial institutions that currently hold the Town's deposits. The financial institutions have implemented the new FDIC insurance limits on October 30, 2008 whereby, the FDIC deposit insurance temporarily increased the coverage amount from \$ 100,000 to \$ 250,000 per depositor. On accounts earning a rate of .50% and under, deposits are insured in full (without limit) as well. This remained in effect as of June 30, 2009. As a result of the changes in the FDIC insurance, low return on investments, and cost to the financial institution, collateralization is not offered.

The Treasurer will continue to monitor the cash balances within each financial institution, the FDIC insurance limits, and rates of return to ensure the security of the Town's funds.

**3. Formalize Policies for Student Activity Records**

The School Department accounts for student activity funds (SAF) on a decentralized basis at the school locations. As a result, many untrained Department employees are responsible for handling cash receipts, disbursements, maintaining bookkeeping records, and reconciling accounts. Also, currently there are no standardized Department-wide policies and procedures to provide guidance to the employees in the proper maintenance of those records. This lack of training, guidance and oversight results in inconsistent quality of accounting records at the various schools. It also increases the risk of errors or irregularities occurring and going undetected.

We recommend the School Department establish formal documented policies and procedures over the maintenance and accounting of student activity funds. We specifically recommend the Department consider using the model SAF policy and procedure manual developed by the Massachusetts Association of School Business Officials (MASBO) which has been implemented in many school districts, and incorporates the proper accounting for many of the specific issues discussed in this report.

We also recommend that the employees responsible for maintaining SAF's be provided with training on these new policies and procedures, and that the Business Office periodically monitor the records at the schools to assure appropriate compliance is in place, and that formal audits be performed at least once every three years. This will result in an improved oversight and standardized accounting records District-wide, thereby minimizing the risk of errors or irregularities occurring and going undetected.

Town's Response:

The Town agrees with the above recommendations and since these findings were made as part of the FY2008 financial statement audit, the School Department has taken steps to develop guidelines using the aforementioned MASBO guidelines.

The Town looks to audit both the Middle School and High School funds during FY2010 and FY2011 respectively, especially as there has been turnover at the Middle School with respect to both leadership and bookkeeping functions for FY2010.

**4. Other Prior Year Issues**

The following section of the management letter identifies several other prior year recommendations that are reported in a very summarized manner. We will be available to discuss these issues in more detail to assure that there is a clear understanding of the issues and recommendations.

- Monitor inactive and old special revenue and capital project fund accounts to determine the disposition of remaining surplus and deficit balances, and establish a plan to fund deficit balances.

Town's Response:

The Town has been monitoring all special revenue accounts and we are in the process of closing deficit account balances through the tax recap process. Certain surplus special revenue accounts do have restrictions and the accounting department is currently researching Town Meeting votes and a determination will be made by management on how to proceed with such surplus balances.

- Establish formal trust fund investment policies to maximize investment returns at desired risk thresholds.

Town's Response:

The Treasurer continues to research this process and will prepare the necessary investment policy and have it accepted by the proper town officials.

**CURRENT YEAR ISSUES:**

**5. Revise Procedures for Documenting Bid Compliance**

Massachusetts General Laws Chapter 30B requires that purchases of \$ 5,000 to \$ 25,000 be supported by documentation that quotes were obtained by at least three vendors and that expenditures of \$ 25,000 or more be subject to a formal bidding process.

In testing for compliance with Massachusetts General Laws Chapter 30B, “the Procurement Act”, we noted one instance of noncompliance. The expenditure was for \$ 16,978 and, therefore, should have been subject to obtaining three vendor quotes. The Town could not supply us with documentation evidencing compliance with this requirement of Chapter 30B.

We recommend that in the future the Town maintain documentation to support compliance with Chapter 30B in all applicable purchases of goods and services.

Town's Response:

The Town does have formalized procedures in place to be in compliance with M.G.L. Chapter 30B. The Accounting Department, along with the Purchasing

Department, held a meeting with the employees of the Department of Public Works, explaining purchasing requirements and what responsibilities they as employees of the Town are required to adhere to. Written documentation on purchasing policy and procedures was handed out to each employee of the Public Works Department. The purchase in question was a sole source procurement, the only vendor able to outfit the sewer truck with the additional equipment needed.

## **6. Other Current Year Issues**

This section of the management letter identifies several summarized recommendations for improvement that were identified in the current year audit. We will be available to discuss these issues in more detail to assure that there is a clear understanding of the issues and recommendations.

- Reconcile Tax Commitment Forms. In fiscal year 2009, one of the real estate commitment forms amounts did not agree with the total of the actual taxpayer bills. Because the commitment form is used to post billings to the general ledger, this caused the general ledger receivable to be out of balance with the Collector's records. We recommend the Assessors reconcile each commitment form amounts to the total of actual taxpayers' billings.

### Town's Response:

The Assessors will reconcile each commitment form amounts to the total of actual taxpayers' billings.

- Improve Cut-Off of Expenditures. In our testing of expenditures, we noted several fiscal year 2009 disbursements that were erroneously charged to fiscal year 2010. This increases the risk of inaccurate year end reporting, including the calculation of free cash. We recommend the Town exercise more care in charging year end disbursements to the proper fiscal year.

### Town's Response:

Controls are now in place whereas the accounts payable clerk will forward on to the Town Accountant any bill from prior fiscal years that a department tries to submit for payment. In turn the Accountant along with the

department in question will forward an article to Town Meeting asking for approval of prior year expenditures.

- Improve Abatement Records. The Town was unable to locate records to support one of three motor vehicle abatements we selected for testing. We recommend the Assessors improve the abatement filing system to assure records are orderly and can be easily located to support all abatements issued.

Town's Response:

The Assessor's office has changed the filing system of motor vehicle abatements to coincide with the abatement certificate number to more easily find all files in the future.

- Document Currency Receipts. Although the Tax Collector documents currency receipts on the actual duplicate tax bills, we noted that the overall breakdown of currency and checks is not documented on the turnover form that is remitted to the Treasurer. We recommend the turnover form document the breakdown of total receipts between currency and checks. This will provide an improved audit trail and control over currency receipts.

Town's Response:

The Tax Collector has added the breakdown of total receipts between currency and checks to the turnover form.

- Do Not Post Directly to Fund Balance Accounts. We noted that expenditures of prior year encumbrances were posted directly to fund balance accounts in the general ledger. This treatment complicates the accounting records, and does not conform to generally accepted accounting principles. We recommend all expenditures of prior year encumbrances be posted to expenditure accounts in the Town's accounting records.

Town's Response:

After careful review of special revenue fund balance accounts, it was determined that there is a software glitch within the general ledger year end processing. We are currently working with our software company to address this issue.

- Improve Control Over Encumbrances. The Town does not consistently maintain records to support year end encumbered funds. Encumbrances should represent year end purchases that have not been fulfilled by outside vendors as of June 30. We recommend the Town take additional measures to assure that all encumbered funds are supported by year end purchase orders or other similar documentation.

Town's Response:

The Accounting Department will be implementing new procedures for year end encumbrances. Any and all open invoices for services at year end regardless of the outstanding amount will require a purchase order.