

TOWN OF WATERTOWN, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2014

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Additional Offices:

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

To the Town Manager and Town Council
Town of Watertown, Massachusetts

In planning and performing our audit of the basic financial statements of the Town of Watertown, Massachusetts as of and for the year ended June 30, 2014, 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 opinions 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 over financial reporting.

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 a 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 material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, Town Manager and Town Council, others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

The purpose of this communication, which is an integral part of our audit, is to describe for management and those charged with governance, including those overseeing the financial reporting process, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

Melanson Heath

September 10, 2015

STATUS OF PRIOR YEAR RECOMMENDATIONS:

1. Improve Compensated Absences Accounting

Prior Year Issue:

In the prior year, we recommended that the Town centralize and automate the accounting for employee compensated absences.

Current Year Status:

We understand that the Town contracted with a consultant to automate the compensated absence accounting in the Town's MUNIS accounting system. However, this project was incomplete in fiscal 2014, resulting in an estimated liability amount being recorded in the June 30, 2014, financial statements.

Further Action Needed:

Upon completion of the new automated system, we recommend the Town monitor and test the new automated compensated absence records during fiscal 2015 to help ensure an accurate liability amount is reported in the 2015 financial statements.

2. Improve Accounting and Monitor Activity over the Police Detail Agency Fund

Prior Year Issue:

In the prior year, we recommended the Town establish a police detail receivable account in the general ledger, reconcile it to the Police Department records, and formalize a write-off policy for uncollectable accounts. Also, the cash basis deficit fund balance should be added to the collectable receivable amounts to determine whether a remaining true fund deficit exists. If a true deficit exists, an analysis should be performed to identify the cause and determine a corrective action plan.

Current Year Status:

This issue was addressed and resolved in fiscal 2014.

Further Action Needed:

None.

CURRENT YEAR RECOMMENDATION:

3. Develop a More Formal Risk Assessment Process

The Town informally performs its own risk assessment for possible fraud or material misstatement through various policies and procedures and regular reviews of trends in the financial statements. Risk assessment is a manage-

ment 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.

We recommend that the Town implement a more formal risk assessment process that includes internal audits and 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 documenting risk assessment discussions and assessments.

In evaluating risk areas, particular consideration should be given to situations where a single employee is responsible for performing most or all accounting responsibilities, since this could create opportunities for fraud to occur and go undetected. The Town should evaluate major transactional cycles in all applicable departments to ensure an adequate segregation of duties exists. If staffing levels do not permit an adequate segregation of duties, the Town should provide additional oversight, which should include review and documented sign-off of the key accounting records.

We also recommend the Town establish a formal employee fraud policy to provide staff with guidance in the event they observe or suspect fraud in the work place.