



# Finance Committee Agenda

## City of Newton In City Council

Monday, April 9, 2018

7:00 PM  
Room 211

**Chair's Note:** Tony Logalbo will present the 2017 Annual Report of the Financial Audit Advisory Committee.

### **Items scheduled for discussion:**

**#207-18 Submittal of the CAFR, and external audit reports**

COMPTROLLER transmitting the Comprehensive Annual Financial Report and external audit reports for fiscal year ending June 30, 2017 for City Council review/acceptance.

**Chair's Note:** The Committee will review the June 30, 2017 Independent Financial Audit Report with Matt Hunt of Clifton, Larson, Allen, LLC, the City's independent auditor. Please bring the Management Letter, GAO and OMB A-133 Reports, and the Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2017 that you received in the March 16, 2018 packet. The reports can also be found online at: <http://www.newtonma.gov/gov/comptroller/new.asp>

**#206-18 Appropriate \$100,000 from Free Cash to the School Department's Budget**

HER HONOR THE MAYOR requesting authorization to appropriate one hundred thousand dollars (\$100,000) from Free Cash to supplement the School Department's FY 18 Budget. The FY 18 State Budget, which was approved after the City's FY 18 budget included an additional \$125,636 in State funding for Newton.

All other items before the Committee will be held without discussion.

Respectfully submitted,

Leonard J. Gentile, Chair

---

The location of this meeting is accessible and reasonable accommodations will be provided to persons with disabilities who require assistance. If you need a reasonable accommodation, please contact the city of Newton's ADA Coordinator, Jini Fairley, at least two business days in advance of the meeting: [jfairley@newtonma.gov](mailto:jfairley@newtonma.gov) or (617) 796-1253. The city's TTY/TDD direct line is: 617-796-1089. For the Telecommunications Relay Service (TRS), please dial 711.

**Financial Audit Advisory Committee  
2017 Annual Report**

March 1, 2018

The Financial Audit Advisory Committee (FAAC) was established as a continuing resolution of the City Council adopted on December 6, 2010 (#262-10). The purpose of the FAAC is to assist the Comptroller and the Council’s Finance Committee in the review of audit and fiscal accountability matters. The Committee is required to report annually to the Finance Committee of the City Council on its activities.

The membership of the Committee consists of nine members appointed by, and all of whom shall serve at the pleasure of, the President of the City Council:

- the Finance Committee Chair and three other Councilors;
- one School Committee member upon the recommendation of the School Committee Chair;
- four citizens of the City with financial expertise, appointed with input from members of the City Council. The citizen members serve for three –year terms. No citizen member may serve for more than two consecutive full terms.

The FAAC Chair is appointed by the President of the Council, in consultation with the Finance Committee Chair, from among the Councilor members of the Committee.

Membership for the 2017 calendar year and as of February 1, 2018 is as follows:

**2017:**

Councilors

Ruthanne Fuller (Chair, FAAC)  
Leonard Gentile – ex officio as City Council Finance Committee Chair  
Jacob Auchincloss  
Victoria Danberg

School Committee

Margaret Albright

Citizens

Robert Fox (2<sup>nd</sup> full term to 1/31/18)  
Howard Merkowitz (2<sup>nd</sup> full term to 1/31/18)  
Tony Logalbo (2<sup>nd</sup> full term to 1/31/20)  
David Spector (1<sup>st</sup> full term to 1/31/19)

**2018:**

Councilors

Leonard Gentile – (Chair, FAAC) ex officio as  
City Council Finance Committee Chair  
Jacob Auchincloss  
Rebecca Grossman  
Christopher Markiewicz

School Committee

Bridget Ray-Canada

Citizens

Jason Chow (1<sup>st</sup> full term to 1/31/21)  
Terrence Finn (1<sup>st</sup> full term to 1/31/21)  
Anthony Logalbo (2<sup>nd</sup> full term to 1/31/20)  
David Spector (1<sup>st</sup> full term to 1/31/19)

Citizen members Robert Fox and Howard Merkwitz concluded two full terms on the FAAC as of January 31, 2018. Their excellent service is hereby acknowledged with gratitude.

The FAAC met three times during calendar year 2017:

- February 14, 2017 with the auditor (CliftonLarsonAllen LLP, Matt Hunt) to review the draft management letter and the GAO/OMB reports on federal grant expenditure compliance for the year ended June 30, 2016;
- April 18, 2017 with the auditor to review and discuss planning for the audit of June 30, 2017;
- October 10, 2017 to review the progress of the audit and to discuss and assign several in-depth focused examinations regarding the administration of athletic program fees and certain payroll processes. It is customary and a routine part of the annual audit process for the external auditor to carry out such limited focused examinations as directed by the FAAC, as a means of continuous improvement of risk management activities.

In recent years, a draft of the city's audited annual financial statements has been reviewed at a December FAAC meeting. This year, the Committee determined at its October meeting to schedule the draft review for January 9, 2018, allowing several additional weeks for the city staff and the auditor to complete this work. Review of the Draft financial statements as of June 30, 2017 did occur successfully on January 9, 2018.

In addition to the full committee meetings, one meeting of the Accounting and Auditing subcommittee was held on March 29, 2017. At this meeting, city and school department staff responded in depth to various issues included in the Annual Management Letter. The Risk Assessment, Monitoring and Compliance subcommittee did not meet during 2017 due to staffing and accounting system transitions, but it is expected that this subcommittee will resume meeting with the Chief Financial Officer and Comptroller at least annually to review emerging risk management issues and the continued improvement of responsive and effective internal controls.

At the FAAC meetings, City Comptroller Susan Dzikowski participated actively. Other city and school senior staff including the city's Chief Financial Officer, Maureen Lemieux, met with and assisted the Committee as needed.

The diligent and professional administration of day-to-day financial operations and the clarity and thoroughness of reporting on the city's finances are critical objectives in retaining public trust and ensuring the city's long-term success. The oversight provided by the Financial Audit Advisory Committee continues to be a valuable component in achieving these objectives.

Respectfully submitted,

Leonard Gentile, Chair  
Financial Audit Advisory Committee

City of Newton  
FY17 Management Letter Responses  
February 23, 2018

## **Prior Year Comments – Partially Resolved**

### **Personnel/Payroll**

#### Comment

Our prior year management letter identified various deficiencies related to payroll and personnel processing associated with new hires, departmental transfers and terminations. We performed follow-up testing on the findings identified in the prior year and identified the following:

- Similar to the prior year, three (3) of four (4) terminations selected for testing included Personnel Action Forms (PAF) with approval dates that were subsequent to the termination dates listed on the PAF. Since the PAF serves as a document that provides evidence of internal controls over terminations (such as the approvals of the terminations), it's important that the PAF support the City's control objectives.

#### Recommendation

We recommend the City strengthen procedures to obtain and document approvals of terminations prior to the related termination dates.

#### Management's Response

**As announced in the Mayor's State of the City address in February 2018, the city will soon welcome a new Director of Human Resources to fill the position which has been vacant. All procedures will be reviewed and adjusted accordingly.**

## **Prior Year Comments – Unresolved**

### **Police Details**

#### Comment

Our prior year management letter identified that subsequent to fiscal 2014 year-end, the City's Information Technology Department developed a new billing and collection system for police details that is fully integrated with the police detail scheduling and payroll systems of the City. The remaining step was to integrate the system with the general ledger.

As of the date of this report, the police details billing and collection system is not integrated with the general ledger.

#### Recommendation

We recommend the City evaluate the cost/benefit of integrating the police details billing and collection system with the general ledger.

**Management's Response**

**The City of Newton is currently in contract negotiations to purchase a new comprehensive software package for financial and human resources data. Since the current system will become obsolete, (and in fact is no longer supported by the manufacturer), there is no benefit to integrating the police details billing and collection system with the general ledger at this time.**

**Investment Policy for Certain Trust Funds****Comment**

Our prior year management letter identified that certain trust funds maintained by the City were not governed by formal investment policies.

As of the date of this report, formal investment policies for these trust funds have not been developed and implemented.

**Recommendation**

We recommend the City develop and adopt a written investment policy for those trust funds that are currently not governed by one. The policy should, at a minimum, address the following:

- Investment objectives
- Maximum amounts for investments and the approval criteria
- Types of authorized investments
- Desired mix of products (especially those considered to create risk)
- Goals for the amount of return expected
- Approved vendors of investment products
- The maximum length of time cash can be committed

**Management's Response**

**The City's Investment Advisory Committee has scheduled meetings in March 2018 to address the development and adoption of a written investment policy for those trust funds not currently governed by one.**

**Current Year Comments****High School Athletic Fees and Gate Receipts****Comment**

We evaluated the systems of internal controls related to athletic fees and football gate receipts for Newton North High School (NNHS) and Newton South High School (NSHS). We identified the following areas for improvement:

**Newton North High School**

1. We identified there are no formal, documented policies for collecting and tracking athletic fees. Such policies would standardize procedures, clearly define responsibilities and assist during times of employee absence and turnover.
2. Student athlete accounts are reviewed frequently, however, there is no formal documented procedure to perform periodic reconciliations of team participants to athletic fees collected. Formal,

periodic reconciliations of participant counts to revenues collected provide additional assurance over the reporting of revenues.

3. The Athletics office uses an athletics fees software (Family ID) which possesses the capabilities to automatically update payments posted to participant accounts. Currently, the process is manual and involves entering payments obtained from the City's lockbox software (Unipay) into a note to be posted to the participant's account in Family ID. The note entry is not finalized until the activity is archived in Family ID and meanwhile, such notes can be deleted, modified, or transferred to a different activity. The use of the software's automation capabilities, or use of a different automated fee management system, would strengthen controls over fee collections, reduce the risks of inaccurate payment information and increase efficiencies. The automated system should include mechanisms to protect data integrity and should be able to query fee data and generate useful financial reports.

4. The current procedures for athletic fees paid by check are for the checks to be held from the date of registration through the date tryouts conclude - a timeframe of several weeks. The current process increases risks related to safeguarding assets and does not promote timeliness of financial reporting.

5. A pre-numbered ticketing system is not used for football gate receipts. Currently, hand stamps are utilized for entry to football games and are provided upon payment. Such a method does not allow for reconciliations of gate receipts collected to tickets sold, which would increase assurance over the accuracy and completeness of gate receipts.

6. Typically, one person collects football gate receipts and a separate person provides hand stamps. However, there are times in which one person is responsible for both. This represents an inadequate segregation of duties.

7. Football gate collections are counted by the Athletics Director and Administrative Assistant after each game prior to the deposit to the bank and turnover of the cash receipts schedule to the School Business Office. However, there is no documented evidence of each count taking place. A standard form should be implemented that includes the counting parties' signatures attesting to the accuracy of the count. Such a procedure establishes dual accountability for football gate collections.

8. During testing of football gate receipts, we identified a single turnover of over \$5,000 that represented collections for five (5) football games. Through our discussions with the athletics office, we identified that the gate receipts were stored in a locked cabinet in the Athletic Director's office as opposed to being turned over after each game. The current process increases risks related to safeguarding assets and does not promote timeliness of financial reporting.

9. During testing of athletic fees receipts, for two (2) out of 5 receipts tested, the supporting documentation did not allow for a complete reconciliation of the payment by family and/or by sport/activity. Documentation maintained for athletic fees should allow for the recalculations of amounts paid by family and sport in case payment questions or disputes arise.

#### Newton South High School

1. Similar to NNHS, we identified there are no formal, documented policies for collecting and tracking athletic fees. Such policies would standardize procedures, clearly define responsibilities and assist during times of employee absence and turnover.

2. Similar to NNHS, there is no formal documented procedure to perform periodic reconciliations of team participants to athletic fees collected. Formal, periodic reconciliations of participant counts to revenues collected provide additional assurance over the reporting of revenues.

3. Similar to NNHS, The Athletics office uses an athletics fees software (Family ID) which possesses the capabilities to automatically update payments posted to participant accounts. Currently, the process is manual and involves entering payments obtained from the City's lockbox software (Unipay) into a note to be posted to the participant's account in Family ID. The note entry is not finalized until the activity is

archived in Family ID and meanwhile, such notes can be deleted, modified, or transferred to a different activity. The use of the software's automation capabilities, or use of a different automated fee management system, would strengthen controls over fee collections, reduce the risks of inaccurate payment information and increase efficiencies. The automated system should include mechanisms to protect data integrity and should be able to query fee data and generate useful financial reports.

4. Athletic fee refunds due to participants registered in Family ID are tracked outside of the software with an Excel spreadsheet. The utilization of an additional system is unnecessary and increases the risk of over-collection and/or withholding of fees due to registered students.

5. Similar to NNHS, a pre-numbered ticketing system is not used for football gate receipts. Currently, hand stamps are utilized for entry to football games and are provided upon payment. Such a method does not allow for reconciliations of gate receipts collected to tickets sold, which would increase assurance over the accuracy and completeness of gate receipts.

6. Football gate collections are counted by the Athletics Director and Administrative Assistant after each game prior to the deposit to the bank and the turnover of cash receipts to the School Business Office. In addition, a Google document that details the gate receipts is prepared and submitted with the turnover. However, the Google document does not include the counting parties' signatures attesting to the accuracy of the count. Such a procedure establishes dual accountability for football gate collections.

7. During testing of football gate receipts, we identified a single turnover of over \$9,000 that represented collections for all of the fall season's football games. Through our discussions with the athletics office, we identified that for over a span of over two months, the gate receipts were stored in a locked cabinet in the Athletic Director's office as opposed to being turned over after each game because of the Athletic Director's medical absence during this time. This process increased risks related to safeguarding assets and did not promote timeliness of financial reporting.

#### Recommendation

We recommend the City and School Department analyze the cost/benefit of the improvements identified and to implement policies and procedures accordingly.

#### Management's Response

**Newton Public Schools management accepts the auditor's recommendations. Management is improving procedures including documentation and training. Management is implementing additional cash handling controls and accounting controls through fee management software.**

#### **Payroll Adjustments**

##### Comment

Through inquiry procedures and observations, we identified instances in which the City's information technology department had to make late adjustments to payroll during the processing of checks. These adjustments were primarily check voids resulting from employees and/or amounts being carried forward from the prior payroll's pre-calculation file (for example, a seasonal employee) that were not supposed to be included in the current payroll.

These late adjustments to payroll increase the risk of errors and place additional administrative burden on the processing of payroll.

Recommendation

We recommend the City implement policies and procedures to help minimize these occurrences, including placing increased emphasis on City departments reviewing their payroll data prior to it being submitted for processing.

Management's Response

**The City accepts the auditor's recommendation to minimize these occurrences and will continue to work towards this goal.**





Ruthanne Fuller  
Mayor

City of Newton, Massachusetts  
Office of the Mayor

#206-18  
Telephone  
(617) 796-1100  
Fax  
(617) 796-1113  
TDD/TTY  
(617) 796-1089  
Email  
rfuller@newtonma.gov

March 26, 2018

Honorable City Council  
Newton City Hall  
1000 Commonwealth Avenue  
Newton Centre, MA 02459

Ladies and Gentlemen:

I write to request that your Honorable Council docket for consideration a request to authorize the appropriation and expenditure of \$100,000 from June 30, 2018 Certified Free Cash to supplement the Newton Public Schools FY18 Budget. The FY18 final budget for the Commonwealth was approved after the City's budget was passed. The Commonwealth budget included an additional \$125,636 for the City of Newton. This request transfers \$100,000 of that increase to the Newton Public Schools.

Thank you for your consideration of this matter.

Sincerely,

Ruthanne Fuller  
Mayor

RECEIVED  
Newton City Clerk  
2018 MAR 26 PM 6:48  
David A. Olson, OMC  
Newton, MA 02459