

CITY OF NEWTON, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2019



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To Management
City of Newton, Massachusetts

In planning and performing our audit of the financial statements of the City of Newton, Massachusetts (City) as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated January 14, 2020, on the financial statements of the City.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

The City's written responses to the matters identified in our audit have not been subjected to the audit 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, the Audit Committee and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
January 14, 2020

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Prior Year Comments – Partially Resolved

Year-End Close

Comment

In the prior year, we evaluated the City's policies and procedures surrounding the year-end close process. Our evaluation took into consideration that the City was converting to the MUNIS software program effective July 1, 2019, in an attempt to identify potential improvements to the year-end close once MUNIS is fully implemented. As such, it should be noted for context that the City's first official year-end close with MUNIS will not occur until the close of fiscal year 2020.

The following is a summary of the areas for improvement we identified in the prior year and their current status:

- The current financial software does not automate the rollover of budgets for multi-year funds (for example, multi-year capital projects funds). The manual rollover of budgets from year to year takes an excessive amount of time to input.

Current Status: In order to report beginning balances for fiscal year 2020, the City input fiscal year 2019 balances into MUNIS and performed a year-end close. As part of this process, the City did utilize the multi-year functionality in order to automate the rollover of budgets for multi-year funds.

- Other than School payroll, payroll and expenditure accruals must be entered into a spreadsheet by each department, then manually entered into the current software by the Comptroller's office. This is a time-consuming process.

Current Status: The City's current plan is to implement MUNIS payroll effective July 1, 2020.

- Final year-end cash receipts can take up to two months to report. A significant part of the delay is caused by departments making deposits, but neglecting to provide a full accounting of their deposits to the Treasurer's office through turnover sheets.

Current Status: For fiscal year 2019, the City continued the process of having departments make their own deposits, but will consider the cost/benefit of centralizing deposits with the Treasurer's Office in fiscal year 2020.

- For the annual independent audit, the City must report balances in capital assets. The City utilizes a spreadsheet to account for capital assets. While this is an acceptable approach, with the conversion to MUNIS, the City should consider utilizing the MUNIS module for capital asset accounting and determine if there are efficiency (and other) benefits as compared to the current approach.

Current Status: For fiscal year 2019, the City continued utilizing a spreadsheet to account for capital assets, but will consider the cost/benefit of utilizing MUNIS in fiscal year 2020.

- As part of year-end reporting, the Comptroller's Office prepares a "Budgetary Basis" annual financial report. The preparation of the report relies heavily on manual entry into a spreadsheet of vast amounts of data from the current financial system. This is not only time-consuming, when there are late accounting adjustments to the general ledger, manual adjustments must be made to multiple worksheets used for the Budgetary Basis report.

Current Status: With the hiring of additional staff in the Comptroller's Office, MUNIS reporting functionality is being utilized to improve automation and increase efficiencies for internal and external reporting.

Recommendation

We recommend the City continue to analyze the cost/benefit of implementing the improvements identified in this comment.

Management's Response

Management will perform on-going analysis of the costs/benefits of implementing suggested improvements.

Oak Hill Middle School Student Activity Funds

Comment

In the prior year, we evaluated the systems of internal control surrounding the student activity funds at the Oak Hill Middle School (Oak Hill) and identified various areas for improvement. The following areas for improvement have not been fully resolved:

- For each school that maintains student activity funds, a student activity fund Checking account must be authorized by the School Committee and a maximum balance established. We identified that Oak Hill's maximum Checking account balance was approved several years ago. While not required, the School Department should consider periodically revisiting and reapproving the maximum account balance.
 - Per inquiries of the School Department, they are in the process of drafting new maximum balances to be presented to the School Committee.
- The City converted to the MUNIS accounting program effective July 1, 2019. MUNIS has a student activity fund module for student activity fund accounting and reporting. Consideration should be given to utilizing the MUNIS student activity fund module for not only Oak Hill, but all Schools with student activity funds.
- The student activity Agency account reimburses the student activity Checking account during the year for disbursements incurred. We identified that the reimbursements are processed through issuing checks. While that is an acceptable method, utilizing bank wire transfers to reimburse the Checking account should be considered as a potentially more efficient process, eliminating the need to process, issue, mail and deposit checks.
 - Per inquiries of the School Department, they are open to this recommendation and would like to discuss further with the City's Treasury Department.

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 is improving procedures including documentation and training. Management will bring forward updated account balance limits to the School Committee for a vote in FY20. Management will further explore the MUNIS Student Activity Module. The School Department will work with City Management to determine if agency account reimbursement through wire transfer is a possibility.

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.

During fiscal year 2019, the police details billing and collection system was not integrated with the general ledger due to the pending conversion to the MUNIS accounting system. As part of the conversion, the City is considering the cost/benefit of developing procedures to fully integrate police details (billing, collection, payroll, etc.) within the MUNIS software.

Recommendation

We recommend the City perform a cost/benefit analysis of developing procedures to fully integrate the processing of police detail transactions within the MUNIS system.

Management's Response

Upon full implementation of the MUNIS Payroll System the City will perform an analysis of the pros/cons of fully integrating the processing of police detail transactions within the MUNIS system.

High School Athletic Fees and Gate Receipts

Comment

Our fiscal year 2017 Management Letter identified various areas for improvement related to athletic fees and gate receipts for Newton North High School (NNHS) and Newton South High School (NSHS). Several of the areas for improvement have been resolved. The following summarizes the prior year comments that have not been fully resolved:

- Formal/Documented Policies – Draft policies/procedures have been developed, but not finalized.
- Formal Reconciliations of Participants to Fees – The School Department has purchased a new online payment management system. The School Department plans to implement the system in the spring of 2020. As part of the implementation, the School Department intends to implement formal reconciliations of participants to fees.
- Manual Processing of Receipts - The School Department has purchased a new online payment management system. The School Department plans to implement the system in the spring of 2020. As part of the implementation, the School Department intends to fully automate the cash receipts process.
- Refunds Tracked in Separate System - The School Department has purchased a new online payment management system. The School Department plans to implement the system in the spring of 2020. As part of the implementation, the School Department intends to perform all financial processes (including refunds) with the new system.

Recommendation

We recommend the School Department continue its efforts to fully resolve the items identified above.

Management's Response

Newton Public Schools Management is improving procedures including documentation and training. Management is implementing additional cash handling controls through fee management software.

Current Year Comments

Information Technology

Comment

We evaluated the City's computer processing environments and general controls over information technology (IT) related to business and financial systems. The evaluation was not intended to be a full scope network security review of the City's information technology infrastructure. The scope was limited to internal controls and security features related to the integrity of transactions and data that could impact financial reporting.

The following are the areas for improvement we identified:

- The following password complexity settings do not comply with best practice:
 - Minimum password length is 7 characters
 - Maximum password age is 182 days

Lack of password complexity creates the risk of unauthorized access to network and application resources.

Lack of password complexity was also identified in the prior year Management Letter

- Credentialed internal and external vulnerability scanning is not performed monthly and quarterly respectively. In addition, risk assessment is not performed by a third party. This creates the risk of unidentified vulnerabilities not being remediated in a timely manner, resulting in possible unauthorized or malicious activity performed on the organization's servers.

This comment was also identified in the prior year Management Letter.

- Critical policies, standards, guidelines and procedures have not been documented as the foundation for protecting non-public information and information technology assets. Additionally, the policies that have already been established are currently not subject to annual review.

This creates the risk that information is not appropriately classified, allowing specific non-public data elements to be exposed to unauthorized disclosure, misuse, alteration, destruction or other compromise of data. This also creates the risk that information security is not properly acknowledged or managed by the organization resulting in legal implications and financial penalties.

- During testing of terminated employees and user access, we identified seven terminated employees that remained on the active user list of various IT systems and programs. This creates the risk of unauthorized access to financial systems, applications and data.

Recommendation

We recommend the City consider the cost/benefit of the following recommendations:

- Update password requirements for standard network and application users to meet the following:
 - Minimum Password Length: 8-14 characters
 - Maximum Password Age: 60-90 Days
 - Minimum password age- 1 Day

- Nessus or another vulnerability scanner (minimally Microsoft's MBSA tool) be run every 30 days on all internal hosts and every 90 days on all external hosts to validate that systems are patched and securely configured.

In addition, we recommend a third party conduct a risk assessment.

- Information Security Standards should be established to protect the organization and its employees from exposure to risks involving inappropriate distribution or release of confidential information that could result in potential legal issues. Policies should be reviewed on an annual basis to ensure the information is still accurate and complete. The City should establish a formal Information Security Program which includes the following policies:
 - Business Continuity/Disaster Recovery
 - Incident Response
 - Change Management
 - Data Management/Classification
 - Vendor Management
 - Physical Security
 - Password Policy
 - Asset Acquisition Policy (Purchasing Policy)
- Perform periodic reviews over access to IT systems, applications and data to ensure no terminated employees have access.

Management's Response

- Although we understand the perspective of CLA with respect to passwords, we respectfully disagree that our choice of settings versus CLA's recommendations constitutes a High Risk. That being said, the City will work to implement enhanced requirements which will coincide well with our current push to upgrade passwords for key employees and those that were on the list of our Dark Web audit.
- The Information Technology Department conducted Penetration Testing in November, 2019, and performs a weekly firewall examination. We are scheduling a Risk Assessment with the Department of Homeland Security.
- Our Telecommunications Policy covers much of the list while our data protection policy covers incident management and data governance. We appreciate the value of compartmentalized policies and are in process to create policies to address these varying facets. We are working with the Law Department already and have submitted drafts of many of these recommended policies.
- Information Technology will continue to work with the Human Resources' Department to ensure timely removal of access for all terminated employees. Of note, none of the seven users identified by CLA had rights to anything beyond email. Except for one user, these were part timers, field workers, or librarians who never had rights to anything other than the most basic of departmental specific resources. One user had worked for Parks & Rec, left the city for a time and then was hired by Human Resources, and is in fact a current employee.

South High School Student Activity Funds

Comment

We evaluated the systems of internal control surrounding the student activity funds at the South High School (South High) and identified the following areas for improvement:

- For each school that maintains student activity funds, a student activity fund Checking account must be authorized by the School Committee and a maximum balance established. We identified that South High's maximum Checking account balance was approved several years ago. While not required, the School Department should consider periodically revisiting and reapproving the maximum account balance.

In addition, South High's most recently approved maximum balance was \$25,000. We identified instances in which South High's Checking account exceeded the maximum balance.

- South High performed a year-end reconciliation of student activity fund balances to the combined balances of the student activity Checking account and the student activity Agency account. We identified that the reconciliation was not prepared and reviewed until late October/early November of 2019. Best practice is to perform such reconciliations within 30 days of month-end to timely resolve any reconciliation issues.
- The City is converting to the MUNIS accounting program effective July 1, 2019. MUNIS has a student activity fund module for student activity fund accounting and reporting. Consideration should be given to utilizing the MUNIS student activity fund module for not only Oak Hill, but all Schools with student activity funds.
- The student activity Agency account reimburses the student activity Checking account during the year for disbursements incurred. We identified that the reimbursements are processed through issuing checks. While that is an acceptable method, utilizing bank wire transfers to reimburse the Checking account should be considered as a potentially more efficient process, eliminating the need to process, issue, mail and deposit checks.
 - Per inquiries of the School Department, they are open to this recommendation and would like to discuss further with the City's Treasury Department.

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 is improving procedures including documentation and training. The Year End Reconciliation process of all Student Activity Accounts will be completed in a more timely manner moving forward. Management will bring forward updated account balance limits to the School Committee for a vote in FY20. Management will further explore the MUNIS Student Activity Module. The School Department will work with City Management to determine if agency account reimbursement through wire transfer is a possibility.

Inspectional Services Department

Comment

We evaluated the systems of internal control surrounding the Inspectional Services Department (the Department) and identified the following areas for improvement:

- The department maintains formal policies and procedures. However, we identified that some of the policies and procedures are several years old and have not been reviewed for potential updates. In addition, the department's policies and procedures are in various formats and locations, as opposed to being documented in one electronic file.
- The department utilizes a software program (Community Plus) to record permits issued. Reconciliations of permit fees recorded in Community Plus to permit fees recorded in the City's general ledger are not performed. Such reconciliations would provide additional assurance over permit fees.

Recommendation

We recommend:

- The department review and update all formal policies and procedures and document them in one electronic file that can be easily accessed by all employees
- The department (or someone independent of the department) perform periodic reconciliations of permit fees recorded in Community Plus to permit fees recorded in the City's general ledger. Such reconciliations should be signed and dated by the preparer and reviewer and maintained on file.

Management's Response

- Policies and procedures have been updated and are available to all appropriate employees.
- Reconciliations of the total revenue from all sources are done every morning for the previous day's receipts. A printout of the previous day's 'Permits Issued' is generated from Community Plus. Every check, cash slip (from Treasury) and credit card receipt is verified and checked against the printout. These total receipts are then forwarded to the Treasurer's office and Comptroller's office along with the individual reports of checks, credit card and cash slips, where they ensure the back up matches the Cash slips submitted. The Inspectional Services Division will review the receipts posted to the General Ledger monthly into ISD's permit accounts and ensure they match the records in Community Plus. They will research any variances.

Informational Comments

Fiduciary Activities

Comment

In January of 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 84, *Fiduciary Activities*, which establishes new criteria for identifying and reporting fiduciary activities of state and local governments. The criteria generally focuses on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom the fiduciary relationship exists.

Activities meeting the criteria will be required to report (1) a statement of fiduciary net position and (2) a statement of changes in fiduciary net position in one of the following four fiduciary fund types in the basic financial statements:

1. Pension (and other employee benefit) trust funds
2. Investment trust funds
3. Private-purpose trust funds
4. Custodial funds

Furthermore, agency funds will no longer be reported and activities that do not meet the new fiduciary fund criteria will be reported as resources of the government.

Any changes in activities adopted to conform to the provisions of GASB Statement No. 84 will require a restatement of beginning net position/fund balance.

The City's required implementation date is fiscal year 2020.

Recommendation

We recommend management familiarize itself with the requirements of GASB Statement No. 84 and prepare for its implementation.

Management's Response

Management will become familiar with GASB Statement 84 for the required fiscal 2020 implementation.

Lease Accounting and Financial Reporting

Comment

In June of 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which establish new financial reporting requirements for governments that enter into lease contracts.

The implementation of this Statement will represent a significant change in the accounting and financial reporting of leased assets, as well as lease liabilities. The implementation of this statement requires:

- Leases previously classified as operating leases to be recognized as lease assets or lease liabilities.
- Lessees to recognize a lease liability and an intangible right-to-use lease asset.
- Lessors to recognize a lease receivable and a deferred inflow of resources.
- Expanded note disclosures.

The City's required implementation date is fiscal year 2021.

Recommendation

We recommend management familiarize itself with the requirements of GASB Statement No. 87 and prepare for its implementation.

Management's Response

Management will learn the requirements of GASB Statement 87 and prepare for fiscal 2021 implementation.

