

FINANCIAL AUDIT ADVISORY COMMITTEE

REPORT

Thursday, February 8, 2018

Present: Councilor Gentile (Chair), Councilor Grossman, Councilor Markiewicz, Councilor Auchincloss, Citizen Representative Tony Logalbo, Citizen Representative Howard Merkowitz and Citizen Representative David Spector (Citizen Representative)

Also present: Sue Dzikowski (Comptroller), Stephen Marshall (School Department), Jim Piotrowski and Matthew Hunt of Clifton Larson Allen LLP

The committee reviewed the draft management letter provided by Matt Hunt from Clifton Larson Allen, the City's external auditor.

Management Letter

Mr. Hunt clarified that the Management Letter does not identify the strengths of the City's financial systems. Mr. Hunt stated that four comments from the previous year's management letter were resolved during the course of Fiscal year 2017. The first resolved comment relates to the development of personnel financial policies and procedures. The Administration finalized several draft policies in Fiscal Year 2017 directly related to the Human Resources Department. The second comment recognized an issue with storm water billing that was resolved through an ordinance amendment. The third resolved comment resulted from the auditor identifying errors in payroll deductions that occurred after the implementation of a new employee agreement. The errors were resolved and the auditor identified no further instances. The last resolved comment was a recommendation that the City review and comply with the new Municipal Modernization Bill. The auditor did not identify any noncompliance issues in this year's audit. A summary of the resolved comments is included in this year's management letter.

In addition, this year's management letter contains a prior year comment that has been partially resolved. During the previous audit, the auditor noted a variety of deficiencies in payroll and personnel processing related to sign-offs on new hires, transfers, and terminations. This audit's follow up testing found that three of four Personnel Action Forms (PAFs) approval dates occurred after termination. The Auditor continues to recommend that the City focus on strengthening policies and procedures related to PAFs to ensure that the City is meeting its internal control objectives.

There are two prior year comments that remain unresolved. First, the Police detail accounts receivables remain an issue in this audit. The City developed and implemented a policy regarding the uncollectible police detail funds, the write-off of those funds in fiscal year

2014 but the City still has not provided a new software program designed for police detail billing, and collection that is integrated with the general ledger software. The auditor recommends that the City consider the cost/benefit of integrating the police details billing and collection system with the general ledger software. Second, for the last few years the auditor also recommended that the City develop and adopt written investment policies for trust funds that are not governed by existing policies or laws. Such policies should include such topics as investment objectives, types of authorized investments, and goals for the return on invested expected. The City did not make progress on developing these policies; therefore, the issue remains unresolved in this year's Management letter. The City is in the process of changing to a new financial software system that may integrate with the police details software. The City is working on the contract with the new software provider and the new software should be in place next year, which means the comment will not be resolved in the next auditor's management letter. The auditor does not consider the comment a significant audit risk and it should be fine to roll the comment over into next year's audit.

There are two new comments this year. The first comment relates to testing done on the internal controls for athletic fees and football gate receipts for Newton North and Newton South High Schools. The auditors identified areas for improvement including implementing formal policies and procedures, formal reconciliations, full utilization of the athletic fees software, using pre-numbered tickets, and developing better refund policies. The School department provided the Committee with a draft response to the auditor's comments, which is attached.

The second comment results from late adjustments to the payroll during check processing that put stress on the Financial Information Services (FIS) Department and increase risk of payroll errors. The auditor recommends that the City implement policies and procedures in all departments that put an emphasis on reviewing payroll data prior to submittal to FIS.

The City's management team has not had an opportunity to respond to the Management Letter comments but will be responding in the near future. Once the City's management has responded to the auditors' comments and recommendations, the Management Letter with the responses from the City will be available on the City website. In addition, the Accounting and Audit Sub-committee of the Financial Audit Advisory Committee will meet with the Administration to discuss the Management Letter comments.

Next Meeting

The next meeting of the Committee is scheduled for Tuesday, April 24, 2018 at 8:15 AM.

Respectfully submitted,

Leonard J. Gentile, Chair

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.

The business office is currently in the process of preparing an updated policy and procedures manual that will include detailed instruction and responsibilities of the athletic office in regards to cash handling and accounting practices. Standardized forms and logs are also being created to help provide clarity of expectations. Annual review of policies will be required in the form of a summarized slide deck, and during times of staff transition.

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.

NPS was required to replace its Student Information System (SIS) which when the product was discontinued and no longer supported by its vendor in 2015. After a temporary SIS solution was implemented in 2015 -2017, conversion to a long-term SIS (ASPEN) has been implemented in January 2018. During this longer than intended transition period, functionality in fee management was reduced and the athletics office adopted the Family ID system on a temporary basis; and did not implement the software fully. The business office is in the process of researching the several full service fee management products that are available that interface well with Aspen SIS. This process began immediately after the SIS contract was award to Follet Aspen and is expected to result in a new fee management system in FY19. Integrating these products for all administrators who are responsible for administering fee-based programs will provide the district with a single access point for reports and to better reconcile fee transactions to participants.

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.

As previously stated NPS is actively exploring fee management systems and plans to discontinue its current practice of manually tracking fee payments. At a minimum this fee management system would be fully integrated with the registration system used by the athletic office, and would maximize electronic payments of fees. The athletic office would also accept check payments payments which would be input into the fee management software. This software would minimize the manual entry of payments. Current software programs being explored are PCI compliant and are able to provide a variety of customizable 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.

Review with current athletic office staff has begun of required processes for cash and check handling and will be documented with the updated policy and procedures manual. Deposits are required to be made at a minimum of once per week, or sooner, if more than \$500 has been received. The former process of holding checks evolved as a strategy to help reduce the number of refunds given, which are time consuming.

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.

While the stamp method does not provide for a perfect reconciliation process, a ticket method has been used in the past and was discontinued due to the passing of tickets between entrants. This is an area that NPS athletics will continue to explore. A gate drawer reconciliation worksheet and transfer form requiring staff signatures will now be used to help document the both entrants and cash 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.

Separation of duties is the preferred standard and will be used whenever possible. This standard is not always achievable, especially at North where the football field has several gate areas and is not fenced. A gate drawer reconciliation worksheet and transfer form requiring staff signatures will now be used to help document the both entrants and cash receipts.

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.

A gate drawer reconciliation worksheet and transfer form requiring staff signatures will now be used to help document both entrants and cash receipts. The gate drawer reconciliation worksheet has signature categories for both the cashier and a verifying signature. This worksheet will be required to be used for all athletic games with entrance fees.

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.

Review with current athletic office staff has begun of required processes for cash and check handling and will be documented with the updated policy and procedures manual. Deposits are required to be made at a minimum of once per week, or sooner, if more than \$500 has been received.

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. See # 3

Newton South High School

Response for findings that are different at Newton South High School follow:

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.

As previously stated NPS is actively exploring fee management systems and plans to discontinue its current practice of manually tracking fee payments and refunds. At a minimum this fee management system would be fully integrated with the registration system used by the

athletics. This software would minimize the manual entry of refunds. Current software programs being explored are PCI compliant and are able to provide a variety of customizable reports.

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.

A gate drawer reconciliation worksheet and transfer form requiring staff signatures will now be used to help document the both entrants and cash receipts. The gate drawer reconciliation worksheet has signature categories for both the cashier and a verifying signature. This worksheet will be required to be used for all athletic games with entrance fees.

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.

Review with current athletic office staff has begun of required processes for cash and check handling and will be documented with the updated policy and procedures manual. Deposits are required to be made at a minimum of once per week, or sooner, if more than \$500 has been received. The former process of holding checks evolved as a strategy to help reduce the number of refunds given, which are time consuming.