

# **FINANCIAL AUDIT ADVISORY COMMITTEE**

## **Report**

**Tuesday, June 19, 2012**

Present: Ald. Fuller (Chairman), Ald. Danberg, Gail Deegan, School Committee Member Matt Hills, and Tony Logalbo

Also present: Candace Havens (Director of Planning), Anne Marie Belrose (Community Development Manager), Joe Mulvey (Interim Director of Information Technology), David Wilkinson (Comptroller), Maureen Lemieux (Chief Financial Officer), and Sue Dzikowski (Director of Finance; School Department)

The Chair of the Accounting and Audit Sub-committee Gail Deegan provided the Committee with a status report on issues contained in the auditor's management letter related to the Newton Community Development Authority, Police Details, and Student Activity Funds. The sub-committee met with representatives of each of the departments to determine how something evolved into a management letter comment and what processes are being established to address the issues. The Committee also received updates on management letter issues related to the Test Database, the Disaster Recovery Plan, and the Water and Sewer Billings from Chief Financial Officer Maureen Lemieux.

### **Newton Community Development Authority**

Candace Havens, Director of Planning and Development, and Anne Marie Belrose, Community Development Manager, submitted the attached memorandum in response to the 2011 management letter comments related to the Newton Community Development Authority. The memorandum details the Planning and Development Department's strategies to address the issues raised in the management letter, including working with the Comptroller's Office on an authorization, recording, and reconciliation process for Newton Community Development Authority loans.

Comptroller David Wilkinson added that the City needs to begin routing the new loan agreement documents through the Purchasing Department, the Comptroller's Office and the Law Department similar to any other City contract. Mr. Wilkinson also feels that due to the processes recently put in place the issues are unlikely to recur in next year's management letter. The Committee requested that written policies and procedures including the new processes be provided to the Committee.

In addition, there was discussion in the sub-committee meeting regarding whether Newton Community Development Authority should exist as a separate entity from the City. No conclusion was reached as further thought needs to be given to bringing the Community Development Authority under the City umbrella. The sub-committee expects to hear back from the Planning and Development Director in October 2012 once there has been an opportunity to

give thought to which direction benefits the City and the Authority and there has been an internal discussion with the Executive Department.

### **Police Details**

The management letter issue related to police details is a result of outstanding receivables that total more than \$125,000 for police detail work assignments. The uncollected receivables are at least a year old and the oldest dates back to March 2005. If the Police Department is unable to collect the funds, it impacts the City's free cash standing. The sub-committee reviewed the process for requesting a police detail, how a detail is approved, and how the money is collected with representatives of the Police Department.

There is a significant amount of work that needs to be done in order to address the issues. The sub-committee expects that the issues will require additional follow-up on the part of the Financial Audit Advisory Committee. The representatives of the Police Department agreed to report back to the sub-committee by January 2013 with (1) a policy to address the uncollectables, (2) a policy on how to fund any write-offs related to the uncollectables, and (3) a new pre-payment process when details are requested. The Police Department is expected to implement a pre-payment program requiring small and medium sized entities to pay for the detail in advance to ensure that the details are funded. Larger companies like National Grid, NStar and Verizon will be billed, as they routinely use police details and pay on a regular basis.

The sub-committee was also concerned that there did not appear to be any segregation between the billing process and the collection process and that same person that is responsible for collection may also be responsible for granting abatements. The Police Department also needs to address these concerns. The issues will likely recur in the Fiscal Year 2012 management letter but that should be the last time.

### **Student Activity Funds**

The Accounting and Audit Sub-committee met with Sue Dzikowski, Director of Finance - School Department, regarding the management letter issues related to the Student Activity Funds at various schools. Ms. Dzikowski reviewed the School Department's responses to the management letter with the sub-committee. The sub-committee was of the opinion that the Newton Public Schools actions to address the management letter issues are appropriate.

The School Department will come back to the sub-committee in September with a short check list of items that may be agreeable to the auditors, as the state law does not dictate anything in particular that could be used as a guideline. The auditor recently provided the School Department with its own checklist, which the School Department is reviewing and hopes to utilize over the summer for at least high schools and middle schools. The School Department will do trials over the summer and report back in September.

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Chief Financial Officer Maureen Lemieux provided updates on the following issues identified in the Management Letter.

### **Disaster Recovery Plan**

Last year, the Administration discovered that there was no back-up server for the City's financial systems. The Information Technology Department researched different financial back-up server options and determined that a cold server was the best option for the City. The server was purchased and is kept off-site. It is a small investment, which works well. The server has been tested and there are instructions on a DVD with information and instructions on how to use the server and restore information.

There was concern that the revenue side of the financial systems did not have a back-up server. Interim Information Technology Director Joe Mulvey explained that Munis Software, which the City uses for billing, is used in other communities. The City backs up all files at the end of each day and an Information Technology Department employee takes the back-up tapes home each night. Theoretically, the City could go to another community and load the back-up tapes to restore the Munis System. However, the City has not determined which, if any, community has the same drive type as Newton. Mr. Mulvey will check with surrounding communities to determine if any have a compatible drive and report back to the Committee by September.

### **Test Database**

The test database was being used for an extended period of time to test a software package called Time Clock Plus to be used by the Department of Public Works, which resulted in a management letter issue. The auditors raised concerns that any new processes and applications could not be tested during that time and suggested the City needed access to multiple test databases.

The Information Technology Department does not expect that the test database will ever be utilized for that length of time again. The Department will make sure that the test database is available for testing accounting systems.

### **Water and Sewer Billings**

The auditors identified issues with the City's water and sewer billing. A number of the bills are based on estimates and some of the bills are based on inaccurate reads from the failing meter system. The City is in the process of replacing its water meters and the reading system. At this time, most of the meters have been replaced. There are approximately 400 meter replacements left due to issues with plumbing, mechanics, or construction that will require additional work to replace the meter.

The City is receiving approximately 85% of the meter reads from the mesh network, which was installed as part of the water meter replacement project. The network fails to capture readings at 15% of the properties. In addition, it is not consistently capturing the information

from the same properties. The vendor that provided the network will be replacing the transmitters associated with the mesh network with larger versions at every property and installing more repeaters throughout the network. This is a huge undertaking which will not be completed until December 2012. Therefore, the City will not have 100% actual reads for the next six months. However, the City has been billing for actuals since the meter change as missing data has been collected manually by driving by a property. Once the meters are reporting automatically, the water/sewer billing will be moved under the newly created Financial Information Systems Department to consolidate all billings.

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Tony Logalbo informed the Committee that the Internal Controls & Financial Policies and Procedures Sub-committee has not met but is expecting that the sub-committee will meet in early July. Mr. Logalbo has met with Comptroller David Wilkinson regarding the charge of the sub-committee but would like to meet with the Chief Financial Officer and the Treasurer before providing a summation.

The Risk Assessment, Monitoring and Compliance Sub-Committee is expected to meet on July 10 or 11 and the Investment Policies Ad Hoc Sub-Committee will meet on July 12, 2012. The Committee will hear reports from the sub-committee meeting at its next meeting on September 21, 2012.

Respectfully submitted,

Ruthanne Fuller, Chair



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Mayor

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Candace Havens  
Director

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**MEMORANDUM**

June 18, 2012

TO: Accounting and Audit Sub-Committee  
Maureen Lemieux, Chief Financial Officer  
David Wilkinson, Comptroller

FROM: Candace Havens, Director of Planning and Development  
Anne Marie Belrose, Community Development Manager

SUBJECT: FY 2011 Audit Comments - NCDA

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Pursuant to the Sub-Committee's request, below are the Planning & Development Department's response to the FY 2011 Audit comments regarding Newton Community Development Authority.

There is no process in place to authorize, record, and reconcile loan activity between the Department of Planning & Development and the Comptroller's Office.

- We are working with the Comptroller's Office to route loan commitments for funding approval, and the Director of Planning & Development will sign off on loan commitments prospectively.
- We have undertaken a comprehensive review of the entire loan portfolio and have reconciled to the Comptroller's records. Nearly all discrepancies were attributable to loan forgiveness and discharges which were not previously reported.

Loans receivable were not reconciled to detailed amortization schedules (by loan recipient) during the year.

- Direct loans are serviced by Brookline Bank and are reconciled upon receipt of the monthly bank statements. Housing Development Loans contain use restrictions and will almost certainly never be repaid; we have discussed removing them from the loan receivable with the Comptroller. For deferred rehab loans, payments are very rarely received, and are calculated at the time of payoff.

Outstanding loans receivable balances are currently maintained in Excel.

- We maintain a comprehensive spreadsheet with all pertinent information relative to each loan, including Loan number, name of borrower, amount of principal, interest rate, loan origination and maturation dates, payments received, and repayment provisions. This has been verified against our loan documents, Brookline Bank Statements, our loan database, Registry of Deeds, and our loan discharge records. Because loan payments are deferred and are rare, we believe this is sufficient and does not justify additional expense.