

CITY OF NEWTON

FINANCIAL AUDIT ADVISORY COMMITTEE

ACCOUNTING and AUDIT SUB-COMMITTEE AGENDA

WEDNESDAY, APRIL 13, 2016

Room 211  
8 AM

Review of the following individual department responses to the Auditor's Management Letter with representatives of the Police Department, Information Technology Department, Planning & Development Department and the Human Resources Department

- Police Details Billing and Collection System Integration
- Planning & Development State and Federal Grant Compliance
- Personnel Procedures and Policies
- Water, Sewer, and Stormwater Payroll Policies and Procedures

Respectfully submitted,

Tony Logalbo, Chair

## **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 integrate the police details billing and collection system with the general ledger.

### Management's Response

The Comptroller will discuss this further with the City's IT Director and Police Chief.

## **Financial Policies and Procedures**

### Comment

Our prior year management letter identified that although the City has adopted top level financial policies and has certain processes documented, preparation of additional formal policies and procedures would improve and standardize the City's financial policies and procedures. Formal policies and procedures should include content that is relative to all financial functions and processes. The written policies and procedures should also clearly define the objectives, responsibilities and authorizations for all employees/job positions.

For fiscal year 2015, the items of priority were identified as:

- General administration of state and federal grants (i.e. at the Comptroller's Office level)
- Personnel (i.e. hiring, payroll and related Human Resources data base changes)

During fiscal year 2015, formal policies and procedures related to general administration of state and federal grants were implemented and posted to the Comptroller's page of the City web site. Formal policies and procedures related to personnel were not developed.

At this time, the items of priority for fiscal year 2016 are the following:

- Personnel
- Department of Planning and Development (DPD) – state and federal grant compliance
- Fraud protection (including cybersecurity) over bank transactions and accounts

The fiscal year 2015 audit identified several compliance and internal control findings related to federal grants managed by the DPD. As such, placing an emphasis on documenting and centralizing DPD grant compliance policies and procedures would be prudent.

As it relates to fraud protection over bank transactions and accounts, the City has implemented some procedures in this area (such as utilizing a separate computer for executing bank transfers), but they are not formally documented. Placing emphasis in this area may also lead to other procedures that could be implemented and documented.

### Recommendation

We recommend the City continue progress towards developing and implementing formal financial policies and procedures, placing emphasis on the items of priority listed above.

We also recommend that once formal financial policies and procedures are developed and implemented, they be posted on the City's web site.

Management's Response

Personnel - The Comptroller will discuss this further with the Mayor's Office and HR Department.

Planning & Community Development - The Community Development fiscal staff will work with the Comptroller in developing written policies and procedures for the administration of all major US Department of Housing and Urban Development grant programs.

Fraud protection - The Comptroller will work with the Treasurer in documenting policies and procedures over bank transactions and accounts.

## Water, Sewer and Stormwater Payroll

### Comment

We evaluated the systems of internal control surrounding payroll for employees that provided a combination of services related to water, sewer and/or stormwater activities and identified the following matters:

- While the Department of Public Works (DPW) maintains or refers to several formal policies and procedures related to general payroll processes, there are no formal policies and procedures related to specific and/or unique aspects of their payroll. For example, during fiscal year 2015, DPW implemented new procedures related to allocating payroll amongst water, sewer and stormwater activities. Having written policies and procedures for these (and other) specific and/or unique aspects of DPW payroll would improve and standardize policies and procedures, minimize potential inconsistencies and serve as a reference guide in the event of staff absences, turnover, etc.
- During fiscal year 2015, the DPW utilized “Daily Reports” to document employees’ daily schedules and to identify employee activities amongst water, sewer and stormwater. The “Daily Reports” were used to populate Excel spreadsheets that documented adjustments and allocations of employees’ work hours amongst water, sewer and stormwater activities. The Excel spreadsheets were then used to prepare and record monthly adjustments to water, sewer and stormwater payroll expenses in the general ledger.

Based on inquiries of DPW personnel and reviews of a sample of “Daily Reports”, they are completed in the morning and represent employees’ *expected* daily assignments. They do not necessarily represent an “after-the-fact” documentation of *actual* daily activities performed.

While employees submit timecards at the end of the day, the timecards only document total hours worked and do not document hours worked by activity (water, sewer, etc.). Therefore, if an employee’s actual activities differed from the “Daily Reports”, it would not be reflected in the Excel spreadsheets referred to above that were used as the basis for monthly payroll adjustments.

- Our review of a sample of the Excel spreadsheets referred to above identified some data input clerical errors. The clerical errors did not cause improper payments to employees or overall misstatements to payroll expenses, but did impact the calculations of the monthly payroll adjustments referred to above. It should also be noted that the clerical errors we identified related to supervisory personnel and it is our understanding that starting in fiscal year 2016, the allocation of payroll charges for supervisory personnel is being processed directly through the payroll system.

### Recommendation

We recommend the DPW perform the following:

- Develop and implement written policies and procedures related to specific and/or unique aspects of their payroll
- Consider the cost/benefit of employees reviewing “Daily Reports” at the end of the day in order to identify adjustments to the allocation of their time amongst water, sewer and stormwater activities
- Strengthen procedures related to the preparation and review of spreadsheets/reports used as the basis for monthly payroll adjustments

## Management's Response

**Recommendation:** Develop and implement written policies and procedures related to specific and/or unique aspects of their payroll.

**Response:** We have added a Financial Analyst to the division to monitor the daily activities as they relate to payroll charges. From the operations side we have evaluated the activities needed in the Stormwater Division going forward based on historical data and moved 5 personnel from the Sewer Division into the Stormwater Division to eliminate personnel from performing activities outside their payroll charges.

**Recommendation:** Consider the cost/benefit of employees reviewing "Daily Reports" at the end of the day in order to identify adjustments to the allocation of their time amongst water, sewer and stormwater activities.

**Response:** Personnel assignments may change from day to day. The payroll charges are shown on the "Daily Reports" at 7:00 AM in the morning, then submitted to payroll by 10:00 AM and do not change after 10:00 AM of the following business day. Work performed after 3:00 PM (overtime) is documented by activity and payroll charge and submitted the following day to payroll to be confirmed by the payroll coordinator.

**Recommendation:** Strengthen procedures related to the preparation and review of spreadsheets/reports used as the basis for monthly payroll adjustments.

**Response:** In FY 2016 an additional staff position was added to the Stormwater budget who will review and track payroll allocations and create reports for any payroll adjustments. Any changes executed will be processed through the payroll system accordingly to reflect the appropriate salary expenditure.