

CITY OF NEWTON  
FINANCIAL AUDIT ADVISORY COMMITTEE  
RISK ASSESSMENT, MONITORING & COMPLIANCE  
SUB-COMMITTEE REPORT

Thursday, May 1, 2014

Present: Robert Fox (Chairman), Ald. Ruthanne Fuller, Ald. Victoria Danberg, and Gail Deegan  
City staff James Reardon (Treasurer), and Sue Dzikowski (Director of Finance; School Department)

Risk Assessment Policy for Cash Receipts

**School Department**

The sub-committee continued discussing the development of a risk assessment policy for the City's cash receipts. School Department Director of Finance Sue Dzikowski provided the attached spreadsheet of the Fiscal Year 2014 Year-to-Date Receipts for the School Department. The School Department has collected close to \$8 million in receipts in approximately six months. The sub-committee reviewed the list of different types of receipts. Ms. Dzikowski pointed out that the spreadsheet includes method of payment for each of the categories. The School Department has seen increases in on-line payments for many of the programs offered by the schools but people still pay in cash or check. The School Department continues to look at expanding the ability to pay on-line for all services and programs.

The highest risk area are the Student Activities Accounts because the cash and checks are collected by a number of different people within each school and are sent to a number of different accounts. Most of the collection is clean and verifiable as a large amount of the funds are collected on-line, checks and cash are collected by one person in one office, entered into tracking software and deposited.

It is important to look at size of transaction, number of transactions and number of points of location that checks and cash are collected. Whenever the transactions are small and there are a number of transactions at a number of locations, the risk of cash leakage is greatest. It was pointed out that it is important to focus on reducing reputational risk, as it relates to cash management. The School Department should be looking to minimize reputational risk by promoting on-line payment, reducing locations where cash is collected and developing and adhering to a strict policy for cash collection.

The School Department uses Unibank for most of its on-line credit card transactions, as the parent is responsible for the fee associated with the credit card service instead of the School Department. Although the Food Service revenues are part of the City's accounting system, it is the vendor who chooses the on-line payment provider.

Similarly, the Community Education and Summer School on-line payment services are linked to contracts.

After reviewing the spreadsheet, the sub-committee requested more in depth detail from the School Department on revenue collections in the below areas:

- Tiger Loft – determine procedures for revenue collection
- Food Service Vendor – look at contract and ask for vendor’s procedures and policies related to cash collection
- Student Activities – provide number of accounts, locations where cash is collected and if there are written policies and procedures related to collection.

### **On-line Payments**

There was concern that there is potential for fraud related to on-line payments. Treasurer Jim Reardon stated that there was an instance in another city or town where a former employee established a bank account and diverted municipal funds into that bank account, all of which was done electronically. The banks have implemented a system to deal with that type of fraud but there is always the potential for fraud as on-line banking technology evolves and it is difficult to assess the risk of the unknown. It is important that the City is sure that on-line service providers have excellent security to avoid reputational risk and financial risk. On-line service providers need to provide the City with indemnification for instances of fraud.

### **Tracking Mechanism**

Many City departments and School Department collect funds and there is no recording system to document what is being collected. The Administration needs the ability to track collections through some type of mechanism like Point of Sale Terminals located in departments or software. The mechanism would need to be connected to a central system to track and provide oversight on cash collection.

### **Non-payment Risk**

The Sub-committee needs to make a determination whether to address non-payment as part of the cash receipts risk management. Before making a decision, the Committee needs to determine how large a problem non-payment is for the City and School Department. It is likely that non-payment is a very minor issue but that is an educated guess.

### **Municipal Departments**

Mr. Reardon is developing a plan do a risk assessment to assess each department that collects money. The plan is to make recommendations on training and what collection policies should be implemented within the departments. The Treasurer’s Department has already started with the Police Department and is continuing to work with that department. The plan is to visit two departments per quarter in the next fiscal

year starting with the larger departments, such as Public Works, Inspectional Services, Police, Parks and Recreation, and the Fire Department.

### **Survey**

A survey would complement the Treasurer's plan to visit departments and provide background information for the visits. The survey should include how many locations cash is collected within a department, the average transaction size, how many people collect money and whether the Department has a written policy. In addition, it would provide information that would allow the Treasurer to prioritize the department visits.

### **Implementation**

The Executive Department would make the decision as to whether collection policies are needed and if they are, what collection policies should be implemented. Any collection policy needs to be practical and affordable.

### **Conclusion**

The Treasurer will draft a survey to provide to the sub-committee for the sub-committee meeting scheduled for July 16. Sue Dzikowski will also provide the information requested from the School Department. The Sub-committee should review Pages 9-11 (attached) of the Price Water House Coopers "Practical guide to Risk Assessment" which was previously provided.

Respectfully Submitted

Robert Fox, Chairman

**Newton Public Schools  
FY14 Year-to-Date Receipts**

Type	Total	Location	OnLine	Checks	Cash	Transfers	Online Service
Food Service	\$1,566,601	21 Schools and the Education Center	√ (65%)	√ (15%)	√ (20%)		Heartland
Community Education	\$1,538,369	North High School	√ (90%)	√ (9.5%)	√ (0.5%)		Authorize.Net
Retiree Health & Life (Agency)	\$732,094	MTRS Payroll Deductions					
Student Activity Accounts	\$642,781	18 of 21 Schools		√ (90%)	√ (10%)		
Student Transportation	\$509,988	Education Center, Transportation Office	√ (60%)	√ (40%)	5 per year (0.2%)		Unibank
Use of School Buildings	\$469,882	Education Center, Operations Office		√			
Athletics	\$467,370	Six Secondary Schools, Athletics Office	√ (25%)	√ (75%)			Unibank
Preschool	\$432,056	Education Center, Preschool Office	√ (9%)	√ (90%)	√ (1%)		Unibank
Space Camp	\$239,065	Education Center, CRC Room		√ (100%)	5 per year (0.1%)		
Music/Drama	\$187,680	Education Center, CRC Room	√ (78%)	√ (22%)			Unibank
Gifts	\$137,266	Various		√			
E-Rate	\$119,259	Education Center, IT Office		√			
Summer School	\$116,439	North High School	√ (82%)	√ (18%)			PAYPAL
Elem Early Morning Program	\$109,927	Education Center, Business Office	√ (50%)	√ (50%)			Unibank
Tuitions	\$99,264	Bank Wire to City of Newton	√ (92%)	√ (8%)			
Miscellaneous Revenue	\$71,755	Education Center, Comptroller	√	√			
NSF Innovation Partnership	\$67,350						
HS Parking	\$39,542	South High School		√			
Tiger Loft	\$37,279	North High School		√ (4%)	√ (94%)	√ (2%)	
NPS Health Payments	\$32,228	City of Newton, City Hall		√	√		
Graphics/Carpentry	\$23,623	North High School		√ (58%)		√ (42%)	
Scholarships	\$16,086	North and South High Schools		√			
Lost Textbooks	\$2,382	21 Schools and the Education Center		√			
<b>Grand Total</b>	<b>\$7,658,284</b>						

✱

Risk assessment can therefore be conducted at various levels of the organization. The objectives and events under consideration determine the scope of the risk assessment to be undertaken. Examples of frequently performed risk assessments include:

- **Strategic risk assessment.** Evaluation of risks relating to the organization's mission and strategic objectives, typically performed by senior management teams in strategic planning meetings, with varying degrees of formality.
- **Operational risk assessment.** Evaluation of the risk of loss (including risks to financial performance and condition) resulting from inadequate or failed internal processes, people, and systems, or from external events. In certain industries, regulators have imposed the requirement that companies regularly identify and quantify their exposure to such risks. While responsibility for managing the risk lies with the business, an independent function often acts in an advisory capacity to help assess these risks.
- **Compliance risk assessment.** Evaluation of risk factors relative to the organization's compliance obligations, considering laws and regulations, policies and procedures, ethics and business conduct standards, and contracts, as well as strategic voluntary standards and best practices to which the organization has committed. This type of assessment is typically performed by the compliance function with input from business areas.
- **Internal audit risk assessment.** Evaluation of risks related to the value drivers of the organization, covering strategic, financial, operational, and compliance objectives. The assessment considers the impact of risks to shareholder value as a basis to define the audit plan and monitor key risks. This top-down approach enables the coverage of internal audit activities to be driven by issues that directly impact shareholder and customer value, with clear and explicit linkage to strategic drivers for the organization.

- **Financial statement risk assessment.** Evaluation of risks related to a material misstatement of the organization's financial statements through input from various parties such as the controller, internal audit, and operations. This evaluation, typically performed by the finance function, considers the characteristics of the financial reporting elements (e.g., materiality and susceptibility of the underlying accounts, transactions, or related support to material misstatement) and the effectiveness of the key controls (e.g., likelihood that a control might fail to operate as intended, and the resultant impact).
- **Fraud risk assessment.** Evaluation of potential instances of fraud that could impact the organization's ethics and compliance standards, business practice requirements, financial reporting integrity, and other objectives. This is typically performed as part of Sarbanes-Oxley compliance or during a broader organization-wide risk assessment, and involves subject matter experts from key business functions where fraud could occur (e.g., procurement, accounting, and sales) as well as forensic specialists.
- **Market risk assessment.** Evaluation of market movements that could affect the organization's performance or risk exposure, considering interest rate risk, currency risk, option risk, and commodity risk. This is typically performed by market risk specialists.
- **Credit risk assessment.** Evaluation of the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. This considers credit risk inherent to the entire portfolio as well as the risk in individual credits or transactions, and is typically performed by credit risk specialists.
- **Customer risk assessment.** Evaluation of the risk profile of customers that could potentially impact the organization's reputation and financial position. This assessment weighs the customer's intent, creditworthiness, affiliations, and other relevant factors. This is typically performed by account managers, using a common set of criteria and a central repository for the assessment data.
- **Supply chain risk assessment.** Evaluation of the risks associated with identifying the inputs and logistics needed to support the creation of products and services, including selection and management of suppliers (e.g., up-front due diligence to qualify the supplier, and ongoing quality assurance reviews to assess any changes that could impact the achievement of the organization's business objectives).<sup>3</sup>

---

3. To learn more about supply chain risk assessment, see the PricewaterhouseCoopers white paper *From Vulnerable to Valuable: How Integrity Can Transform a Supply Chain* (December 2008).

- **Product risk assessment.** Evaluation of the risk factors associated with an organization's product, from design and development through manufacturing, distribution, use, and disposal. This assessment aims to understand not only the revenue or cost impact, but also the impact on the brand, interrelationships with other products, dependency on third parties, and other relevant factors. This type of assessment is typically performed by product management groups.
- **Security risk assessment.** Evaluation of potential breaches in an organization's physical assets and information protection and security. This considers infrastructure, applications, operations, and people, and is typically performed by an organization's information security function.
- **Information technology risk assessment.** Evaluation of potential for technology system failures and the organization's return on information technology investments. This assessment would consider such factors as processing capacity, access control, data protection, and cyber crime. This is typically performed by an organization's information technology risk and governance specialists.
- **Project risk assessment.** Evaluation of the risk factors associated with the delivery or implementation of a project, considering stakeholders, dependencies, timelines, cost, and other key considerations. This is typically performed by project management teams.

The examples described above are illustrative only. Every organization should consider what types of risk assessments are relevant to its objectives. The scope of risk assessment that management chooses to perform depends upon priorities and objectives. It may be narrow and specific to a particular risk, as in some of the examples above. It may be broad but high level: e.g., an enterprise-level risk assessment or a top-down view that considers the broad strategic, operational, reporting, and compliance objectives; captures a high-level view of related risks; and can be used to drill down further into a specific area of concern, as necessary. Assessments may also be broad and deep, as with an enterprise-wide risk assessment or an integrated top-down and bottom-up view, considering the strategic, operational, compliance, and reporting objectives of the organization and its subsets (e.g., business units, geographies) and associated risks.