

CITY OF NEWTON, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2020



CliftonLarsonAllen LLP
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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, 2020, 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 28, 2021, 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 28, 2021

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Prior Year Comments – Unresolved

General Ledger Integration of 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 2020, the police details billing and collection system was not integrated with the general ledger due to the pending conversion of payroll 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 once MUNIS payroll is implemented.

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.

Oak Hill Middle School and South High School Student Activity Funds

Comment

In prior years, we evaluated the systems of internal control surrounding the student activity funds at the Oak Hill Middle School and South High School and identified various areas for improvement. The following areas for improvement remain for the City's consideration:

- 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 maximum Checking account balances were approved several years ago. While not required, the School Department should consider periodically revisiting and reapproving maximum account balances.
 - Per inquiries of the School Department, new maximum balances are expected to be presented to the School Committee in fiscal year 2021.
- 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 all Schools with student activity funds
 - Per inquiries of the School Department, consideration will not be given to any new modules until the complete transition of payroll into MUNIS.
- 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.

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

New maximum student activity balances have not yet been approved by the School Committee. This is anticipated to be reviewed and voted upon by the School committee in March/April of 2021. Additional modules of MUNIS will be considered following the complete transition of payroll into MUNIS. At this time the reimbursement process will continue with paper checks.

Inspectional Services Department

Comment

In prior years, we evaluated the systems of internal control surrounding the Inspectional Services Department (the Department) and identified various areas for improvement that remain for the City's consideration:

- 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

Unfortunately, ISD has not been able to address the two management recommendations yet due to the COVID-19 pandemic's impact on the department. The City's Inspectional Services Department maintained operations throughout the entire pandemic, including during the spring of 2020, when most organizations shut down. This required a complete redesign of the department's operating procedures so as to enable plan reviews and inspections to occur in a "safe" environment.

Concurrently, the City, under the direction of the Commissioner of ISD underwent the process of selecting a new permitting system which has recently been approved by the City Council and will now begin the 18 to 24-month implementation process.

Many of the policies and procedures will be updated and included in the new permitting software system documentation. The department will work to provide access to all appropriate employees.

Regarding the need for reconciliation between Community Plus system revenues and the monthly General Ledger's posted receipts, ISD will connect with appropriate city departments in order to get access to monthly reports to check them for a match, and then research any variances.

Prior Year Comments – Partially Resolved

Year-End Close

Comment

In prior years, 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 was fully implemented.

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

- 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 January 1, 2021.

- 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 2020, 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 future years.

- 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 2020, the City continued utilizing a spreadsheet to account for capital assets, but will consider the cost/benefit of utilizing MUNIS in future years.

Recommendation

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

Management's Response

The City of Newton went live with the MUNIS payroll system on January 1, 2021, thus completing the full transition from Finance Plus to MUNIS.

Regarding the cost/benefit of centralizing deposits with the Treasurer's Office, especially considering the volume of deposits and the myriad sources of the deposits, the issue will remain under study at this time.

The City of Newton has no plans at this time to purchase the MUNIS capital asset accounting module.

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 areas for improvement remain for the City's consideration:

- **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 for High School athletics in the spring of 2021. 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 for High School athletics in the spring of 2021. 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 for High School athletics in the spring of 2021. 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

MySchoolBucks system has been implemented and is currently being used for Transportation, Music, Early Morning Program, and HS Student Activities. HS athletics plans to begin utilizing the program for its spring 2021 season. Once MySchoolBucks is fully implemented reconciliation of participants to fees received, tracking of refunds, and automation of cash receipts will all be completed within the new software program.

Current Year Comments

Police Details

Comment

We evaluated the systems of internal control surrounding police details and identified the following areas for improvement:

- The Police Department (Department) does not maintain formal documented policies and procedures related to police details. The preparation of a formal policy and procedures manual would improve and standardize internal controls and reduce inconsistencies in everyday practices.
- The Department does not utilize a standard form to document the performance of a police detail. Multiple forms with different formats are used, some of which do not require the signature of the officer performing the detail and/or the signature of supervisory personnel. The use of multiple forms creates inconsistencies. In addition, requiring signatures of the officer and/or supervisor provides for additional accountability and enhances the audit trail.
- We tested fifteen (15) police detail transactions and identified the following:
 - For six (6) transactions, the form documenting the detail was not signed by the officer performing the detail (or supervisory personnel).
 - For seven (7) transactions, the form documenting the detail was not signed by the vendor.
 - While there are instances in which obtaining a vendor signature may not be feasible, every effort should be made to obtain vendor signatures when possible.

Recommendation

We recommend the Department:

- Develop and implement formal policies and procedures. The document should include policies and procedures related to old outstanding accounts receivable (collection efforts, communicating unpaid vendors to other departments, write-off policies and procedures, etc.).
- Implement a standard form to document the performance of a police detail. The form should include sections for an officer (or supervisor) signature and a vendor signature.
- Implement and enforce policies and procedures requiring all police detail forms be signed by the officer performing the detail (and/or supervisory personnel) and the vendor (when feasible).

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.

Community Education

Comment

We evaluated the systems of internal control surrounding the Community Education program (the program) and identified the following areas for improvement:

- Formal reconciliations (or analytical reviews) of class enrollments to fees collected are not performed. For activities in which participants are charged set fees, there is the ability to reconcile (or analytically review) the number of participants to fees collected, which enhances internal controls related to program revenues.
- A 15% discount is offered to Veterans and employees of Newton Public Schools. There are no formal procedures performed to verify Veteran or school employee status for those claiming the discount.
- Instructor contracts are not reviewed by supervisory personnel. This would enhance internal controls related to program expenses.
- At the beginning of each semester, a spreadsheet is prepared that documents the expected weekly payroll amounts for instructors for the entire semester. This spreadsheet is the primary document used to prepare weekly payroll. However, there are instances in which classes that were expected to be conducted at the beginning of the semester get canceled. Since instructors are paid on an hourly basis, instructors should not be paid if a class is canceled. There is no formal weekly procedure in place to identify all canceled classes and adjust the weekly payroll accordingly. This would enhance internal controls related to program expenses.
- There is no formal annual budgeting or financial forecasting conducted for the program. While not required, annual budgeting and/or forecasting may enhance program planning and administration and the evaluation of financial performance and results.

Recommendation

We recommend the following:

- Periodically perform and document formal reconciliations (or analytical reviews) of class enrollments to fees collected.
- Implement and document verification procedures related to fee discounts.
- Implement procedures to have supervisory personnel review all instructor contracts prior to execution.
- Implement weekly procedures to identify canceled classes and adjust weekly payroll accordingly.
- Evaluate the cost/benefit of implementing an annual program budget/forecast and monitoring financial results against the budget/forecast

Management's Response

Beginning with Winter Session 2021, an analysis of class enrollment to fees collected will be completed within 30 days of the end of the session. Procedures are now in place to ensure sufficient documentation in Xenegrade to explain any discrepancies between enrollment and fees. Due to the financial effects of COVID, in order to keep course fees low and accessible to as many in the community as possible, we have suspended giving fee discounts until further notice. We will review this decision as part of the FY22 planning process. Should we decide to continue the discounts, documentation of eligibility will be required. Students who need financial assistance are encouraged to apply for a scholarship and submit proof of financial need. As of the Fall 2020 session, contracts are initiated by programmers and reviewed for accuracy by the Operations Manager. A system is in place for tracking and follow-up on outstanding contracts and instructors may not teach until a fully executed contract is in place. When programmers cancel a course, they log it in a google doc and tag the Director of Finance. In addition, each Friday, before submitting payroll, the Director of Finance checks the submission against the most current information in Xenegrade and adjusts the master spreadsheet accordingly. A draft FY21 budget was developed in November 2020 and will be updated against actuals quarterly. The budget process for FY22 is scheduled to begin in May 2021. Beginning with FY22, monthly budget-actual reports will be generated and shared with program leadership, NPS finance department and other stakeholders as applicable.

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.

This area for improvement was also identified in the prior year Management Letter.

- A formal IT Risk Assessment is not performed internally or by a third party. This presents the risk that vulnerabilities are not identified and remediated in a timely manner resulting in possible unauthorized or malicious activity performed on the organization's servers.

This area for improvement was also identified in the prior year Management Letter.

- During testing of terminated employees and user access, we identified several 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.

This area for improvement was also identified in the prior year Management Letter.

- Formal policies that have been established are currently not subject to annual review. Policies should be reviewed on an annual basis to ensure the information is still accurate and complete.

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

Another option is the use of passphrases (greater than 20 characters). If passphrases are implemented, complexity may be relaxed and password age may be expanded to no more than 365 days.

- Perform an asset-based risk assessment modeled after an established framework, or contract a third party vendor to provide such services to adequately assess the risk environment, identify gaps in controls and identify level of compliance with required regulations.

The risk assessment should include:

- A comprehensive list of IT assets (hardware, software, vendors, employees, etc.)
- Risks associated with each IT asset
- Likelihood and Impact ratings for each risk combined to form Inherent Risk Rating
- A documented Risk Assessment Methodology to standardize the calculation of risk to include probability, impact, and the inherent risk
- Current mitigating controls associated with each risk
- Residual risk rating
- Residual risk mitigation strategy

Additionally, the IT Risk Assessment should be updated on a regular basis in order to reflect changes to the IT environment as well as risk mitigation efforts.

- Perform periodic reviews over access to IT systems, applications and data to ensure no terminated employees have access.
- Review formal policies on an annual basis to ensure the information is still accurate and complete.

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 continues to implement enhanced requirements. We have made a recent push to upgrade passwords for key employees and those that were on the list of our most recent 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. We do annual Dark Web audits by varying contractors. The nature of our responsibilities in IT essentially have us performing risk assessment with every task we promote, every day. We welcome the idea of a professional risk assessment in the future but are unable to devote the resources to this expenditure at this time.

Our Policies cover telecommunications, data protection, incident management and data governance. We appreciate the value of compartmentalized policies and are in an ongoing process to update. 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.

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 initial implementation date was fiscal year 2020. However, to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic, GASB issued Statement No. 95, which postponed the City's required implementation date to fiscal year 2021.

Recommendation

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

Management's Response

Management is becoming familiar with the requirements of GASB Statement No. 84 and is preparing for its 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 initial implementation date was fiscal year 2021. However, to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic, GASB issued Statement No. 95, which postponed the City's required implementation date to fiscal year 2022.

Recommendation

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

Management's Response

Management is becoming familiar with the requirements of GASB Statement No. 87 and is preparing for its implementation in FY22.