

CITY OF NEWTON, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2008



Certified Public Accountants

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To the Honorable Board of Aldermen and Mayor
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, 2008, 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.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the conditions identified in our *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters*, dated March 10, 2009, represent material weaknesses.

During our audit we also became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. Our comments and recommendations concerning those matters are summarized in the memorandum that accompanies this letter. This letter does not affect our report dated March 10, 2009, on the financial statements of the City.

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, Board of Aldermen, Mayor, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads 'Sullivan, Rogers & Company, LLC'.

March 10, 2009

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Comments and Recommendations

Accounts Receivable Reconciliations

Comment

Consistent with prior years, procedures are not in place to reconcile the Collector's detailed accounts receivable balances to the general ledger timely. Effective internal controls require the timely reconciliation of detailed accounts receivable balances to the general ledger. Failure to perform these tasks timely inhibits the safeguarding of assets and does not provide for accurate and timely financial reporting.

In addition, when the reconciliations were performed subsequent to year-end, material variances existed between the detailed water and sewer accounts receivable balances and the general ledger. The City subsequently hired a consultant to assist with the reconciliation, which, among many things, identified that current personnel did not have a full understanding of how the system operates. The current condition has a negative impact on the reconciliation process and accurate and timely financial reporting.

Recommendation

We recommend that formal procedures be implemented to reconcile the Collector's detailed accounts receivable balances to the general ledger no later than 30 days after the end of the previous month. We also recommend that the Treasurer/Collector and Comptroller approve (e.g., sign off) each accounts receivable reconciliation.

We recommend that the appropriate personnel obtain the necessary training on the MUNIS detailed accounts receivable module. We also recommend that the City evaluate the need for additional training as new versions of the software become available and are implemented.

Management's Response

The City has contracted with a consultant with a complete understanding of the functionality of the MUNIS receivable tax and utility billing modules. The consultant has been tasked with documenting MUNIS receivable procedures for daily, monthly, and year end activities of the Treasurer-Collector's Office and Utilities Division of the Public Works Department; to train staff of these departments as well as the Comptroller's Office in the use of the MUNIS receivable software; and to work with the Comptroller and Information Technology Departments in identifying opportunities for further automating data sharing between the MUNIS receivable systems and the City's general ledger. The objective of the later effort is to make more efficient use of staff resources and to minimize the number of reconciling adjustments necessary between the MUNIS and general ledger records.

Once the software documentation and training is complete, the Treasurer's Department will work with the Comptroller's Office in developing a monthly process similar to the existing cash and investment process for reconciling month end receivable balances and detailed activity of the MUNIS receivable modules to the City's general ledger. The final product will be a monthly report signed by both the Treasurer and Comptroller documenting any reconciling items. Like the monthly cash and investment reconciliation report, this will also be submitted to the City's Audit Committee for review each month.

Bank Deposits

Comment

June cash receipts, consisting of multiple deposit slips and totaling approximately \$1,280,000, were deposited at the bank throughout the month of July. The lack of timely deposits not only increases the risk of theft, misplacement, or misappropriation, but has a negative impact on cash flows and investment income and potentially delays the cash reconciliation process, which negatively impacts the financial reporting process.

Recommendation

We recommend that procedures be implemented to deposit cash receipts daily.

Management's Response

The Treasurer's Office works continuously with all departments to identify and eliminate areas of delay in depositing. The deposit process will be examined for methods of identifying and eliminating the root cause of the delays.

Position Control

Comment

The City has purchased, but does not utilize, the position control module of the Finance Plus accounting information system. The position control module is designed to define, track, and control available employee positions and, when utilized appropriately, can be an invaluable budget tool.

Recommendation

We recommend that management evaluate and consider the use of the position control module.

Management's Response

The City has used the Position Control module since 1993 for tracking purposes. We have not used the budget control function, but have employed other systems in Human Resources for this purpose. Over the years, the features of this module have changed to allow different functionality and flexibility. The Human Resources, Information Technology, Comptroller, and Executive Offices will reexamine the current function of the system and decide whether to employ it.

Collective Bargaining Agreements

Comment

Our prior year management letter identified that when the City renegotiates a collective bargaining agreement (CBA), a fully updated and complete CBA is not executed. Instead, Memorandums of Agreement are written that details the changes from the original CBA.

During fiscal year 2008, improvement was made in this area as several CBA's were updated/re-written to reflect the current CBA. However, this process has not occurred for all existing CBA's. It should also be noted that completed CBA's have been posted on the Human Resources web page of the City's website since 2006.

Recommendation

We recommend that the City continue its progress towards executing a full and complete CBA each time a negotiated contract is settled. The CBA's should be maintained in electronic format (word) so when a re-negotiation occurs, the electronic file can simply be updated for any changes. As a result, a full and complete CBA will be maintained in one document at all times.

Management's Response

The City has been moving toward updating collective bargaining agreements into new fully integrated contracts. As we have been doing so, we have posted the contracts on the Human Resources Department web site. Integrating old memoranda of understanding into a new contract requires both the City and the unions to agree on the new language so the speed of doing so is not entirely in the City's hands. Nevertheless, we have been committed to this goal for several years and have continually updated contracts as they have settled.

Parking Meters

Comment

Our prior year management letter identified the following deficiency related to the City's parking meter collection process:

1. Collections (coins) are unsecured from the time the meter is opened until the time the collections are delivered to the Treasurer/Collector's office.

The City has investigated alternatives to the current parking meter collection method and an appropriation in the amount of \$115,000 has been authorized for the purpose of upgrading the parking meter collection system.

Recommendation

We recommend that the City continue its evaluation of new parking meters to strengthen the internal controls surrounding the parking meter collection process.

Management's Response

The City has appropriated \$115,000 for the installation of a "closed" parking meter collection system. Coupled with enhancing the security of our collections is an effort to avoid potential injuries currently associating with repetitive manual lifting of coin containers weighing greater than 35 pounds (OSHA threshold). The new closed system collection containers are significantly heavier, therefore, new methods of collecting, transporting, and counting the parking meter coin were required to respond to this audit recommendation and the related OSHA guidelines.

The City has already procured new collection carts, as opposed to the handheld cans used before. The City has also procured a new collection van, which was customized with a power lift for the coin carts to enter and leave the van. The City is in the process of procuring the final items for this project, which include closed cannisters in 1,000 parking meters and 6 closed collection heads for the carts. Per the audit recommendations, it is anticipated that a fully closed (and OSHA compliant) parking meter collection system will be operational by the end of this fiscal year (June 30, 2009).

Cash Receipts – School Lunch Program

Comment

Our prior year management letter identified four (4) deficiencies related to the school lunch program's cash receipt process. During fiscal year 2008, procedures were implemented to resolve two (2) of the deficiencies (related to the High School) previously identified. However, the following deficiencies remain unresolved:

Elementary Schools

1. Although some parents mail in school lunch payments to the food service office, students often bring lunch money to school with them and give it to their homeroom teachers. However, in some schools the money is continues to be placed in envelopes that are taped on the classroom doors. In these schools, the students and teachers have access to these envelopes and know that they contain the cash payments. This process does not properly safeguard assets.
2. Bank deposits are made approximately twice a month. The lack of timely deposits not only increases the risk of theft, misplacement, or misappropriation, but has a negative impact on cash flows and investment income and potentially delays the cash reconciliation process, which negatively impacts the financial reporting process.

Recommendation

Elementary Schools

We recommend that school lunch money brought in by students be given directly to the applicable homeroom teacher. We also recommend a uniform process for all schools be implemented whereby an employee picks up the school lunch money from each homeroom teacher at the start of every school day.

We recommend that the Food Services Director deposit the elementary school lunch receipts daily (similar to the secondary schools' process). We also recommend that the elementary schools consider the cost/benefit of adopting the "School Lunch Box" system (currently utilized by the High School) to streamline the cash receipts process.

Management's Response

1. At present, approximately 35% of lunch fees for elementary students are collected electronically through parents' online advance payments and menu selections. The remaining lunch fees are collected at school when students bring cash or checks from home. The Food Service Director and the Assistant Superintendent for Elementary Education are working with all fifteen elementary schools to place locked boxes in school offices where students may drop their payments each day. The locked box will be kept in a secure location and will be emptied by the on-site Elementary Lunch Manager in preparation for the regular bank deposits.
2. The Food Services Director continues to make all bank deposits for the school lunch program. Because a significant proportion of the elementary lunch fees are paid through an online system, the bank deposits for the cash collected at schools occurs two times per month. The Director plans to implement an automated check deposit scanner that will allow the elementary program to have electronic daily deposits. Any remaining cash deposits will be brought to the bank on a daily basis.

Student Activity Funds - Elementary Schools

Comment

The City's elementary schools have not adopted the student activity fund law as defined in Chapter 66 of the Acts of 1996 (Act). In summary, the Act requires the following:

- The School Committee to authorize School Principals to receive funds in connection with the administration of student activities.
- Student activity funds to be deposited with the Treasurer into a separate interest bearing account (Student Activity Agency Account).
- Interest earned on the Student Activity Agency Account to be retained by the fund and disbursed at the discretion of the School Committee.
- In addition to the Student Activity Agency Account, the School Committee may authorize School Principals to establish a separate checking account (Student Activity Checking Account), which may only be used to disburse funds for the exclusive benefit of student activities.
- The School Committee to establish a maximum amount to be maintained in the Student Activity Checking Account.
- Funds, up to the maximum amount authorized by the School Committee, to be transferred from the Student Activity Agency Account to the Student Activity Checking Account (via the City's warrant process) to initially fund the Student Activity Checking Account.
- Periodically and to the extent funds are available in the Student Activity Agency Account, the City to reimburse the Student Activity Checking Account through the City's warrant process.

Recommendation

We recommend that all student activity funds be maintained in accordance with the Act.

Management's Response

During fiscal year 2008 all elementary principals provided information on the status of student activity funds in the schools. Six of the fifteen elementary schools currently work with the school PTO organization for field trip and other activity expenses, and no checking accounts are utilized by the principals. One school, Bowen Elementary, has the required Treasurer's Agency account as well as the checking account through the City. The remaining eight schools are working with the Assistant Superintendent for Elementary Education and the Assistant Superintendent for Business, Finance and Planning to adhere to the student activity fee law. The goal is to reach compliance while providing a workable solution for school student activity account expenses at the elementary level. Because the total fund level at each elementary school is small, the process of combining a Treasurer's Agency account and a Principal's checking account will require flexibility between the two accounts.

Old Outstanding Checks

Comment

The vendor and payroll outstanding checklists maintained by the Treasurer include many checks greater than three (3) months old totaling approximately \$228,000. Typically, checks greater than three (3) months old reflect checks that have been void, lost, misplaced or stolen. There is currently no process/procedure in place to investigate and resolve the status of these checks.

Recommendation

We recommend that the Treasurer/Collector's office implement monthly procedures to investigate and resolve outstanding checks greater than three (3) months old. Implementation of this recommendation will strengthen internal controls over cash disbursements.

Management's Response

The Treasurer's Office will examine new methods for clearing old outstanding checks in addition to the current tailings procedure. Any additional methods must be reviewed in light of cost, overall impact on disbursements, and practicality.

Unauthorized Bank Accounts Using the City's Tax Identification Number

Comment

We identified eight (8) bank accounts that are using the City's tax identification number that are not authorized by the Treasurer. Usually these accounts represent quasi-governmental organizations, such as parent teacher organizations, booster clubs, etc. However, since these accounts are maintained under the City's tax identification number, the City is potentially at risk if fraudulent activities were to occur in any of these accounts. The City is also potentially at risk if the bank account is unknowingly controlled by a City department, whereby activity would occur outside the City's internal controls and circumvent municipal finance laws.

In addition, the Treasurer should have signature authority on all bank accounts maintained under City's tax identification number and the activity related to the bank accounts should be recorded on the general ledger.

Recommendation

We have provided a list of the unauthorized bank accounts to the Treasurer/Collector. We recommend that the Treasurer/Collector contact the related banks to begin the process of closing all of the unauthorized bank accounts.

Management's Response

The Treasurer's Office will contact the banks and parties involved to resolve this problem by closing the accounts.

Disaster Recovery Plan

Comment

In prior years' management letters, we identified that the City's disaster recovery plan did not address the hardware required to access financial data or the location to operate the hardware. To address this issue, the City has purchased an additional server and selected a separate location to maintain financial operations in case a disaster occurs.

The additional server will have the capability of operating Finance Plus, which includes the City's general ledger, payroll and human resource functions. However, the server will not have the capability of operating the MUNIS accounting information system, which maintains all of the detailed activity (i.e., commitments, payments, refunds, etc.) of the City's accounts receivable (i.e., real estate, personal property, water, sewer, etc.).

Recommendation

We recommend that management include the hardware required to access financial data from the MUNIS accounting information system in the current disaster recovery plan.

Management's Response

The City of Newton's Information Technology Department has included a back-up server for Munis accounts receivable and billing applications in its disaster recovery plan. Funding for this Munis back-up server has been submitted for consideration in the FY2010 Capital Improvement Plan budget.

Financial Policies and Procedures Manual

Comment

Although the City adopted top level financial policies during fiscal year 2008, we believe that preparation of a formal policy and procedures manual would improve and standardize the City's financial policies and procedures. Without formalized written policies and procedures, the City is inherently subject to everyday inconsistencies in its operations. It is also difficult to measure performance and efficiencies without a baseline. The number of such inconsistencies can be minimized by the written codification of policies and procedures and insistence on adherence to them.

Such a manual should include policies and procedures relative to all financial functions and processes, including, but not limited to, the following:

- Cash receipts
- Purchase orders
- Cash disbursements
 - Payroll
 - Vendor
- Administration of grants
- Administration of student activity funds
- Personnel (i.e., hiring, payroll and related changes, etc.)
- Month-end and year-end closing procedures

The manual should also clearly define the objectives, responsibilities and authorizations for all employees/job positions.

The use of written policies, procedures, and job descriptions in conjunction with specific assignment of responsibilities would increase supervisory personnel's effectiveness. Such written documents would decrease the time spent on supervision of clerical personnel and in attempts to define job responsibilities on each occasion of employee turnover.

Recommendation

We recommend that the City develop and implement a financial policies and procedures manual.

Management's Response

The Comptroller's Office will commit to making a greater investment in the formal documentation of accounting and financial reporting policies and procedures over the next year. This will hopefully serve as an example for other departments to follow.

Risk Assessment and Monitoring

Comment

When internal controls are *initially* implemented, they are usually designed to adequately safeguard assets. However, over time, these controls can become ineffective due to changes in technology, operations, etc. In addition, changes in personnel and structure, as well as the addition of new programs and services, can add risks that previously did not exist. As a result, all municipalities must periodically perform a risk assessment to anticipate, identify, analyze and manage the risk of asset misappropriation. Risk assessment (which includes fraud risk assessment), is one element of internal control.

The risk assessment should be performed by management-level employees who have extensive knowledge of the City's operations. Ordinarily, the management-level employees would conduct interviews or lead group discussions with personnel who have knowledge of the City's operations, its environment, and its processes. The risk assessment process should consider the City's vulnerability to misappropriation of assets. It should also address operations that involve heightened levels of risk. When conducting the assessment, the following questions should be considered:

- What assets are susceptible to misappropriation?
- What departments receive cash receipts?
- What departments have movable inventory?
- What operations are the most complex?
- How could assets be stolen?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could potential misappropriation of assets be concealed?
- What prior internal control issues could still continue to be problematic?

Once the areas vulnerable to risks have been identified, a review of the City's systems, procedures, and existing controls related to these areas should be conducted. The City should consider what additional controls (if any) need to be implemented to reduce risk.

After risk has been assessed, periodic monitoring of the identified risk areas must be performed in order to evaluate the controls that have been implemented to mitigate the risks. Since control-related policies and procedures tend to deteriorate over time, the monitoring process ensures that controls are fully operational and effective.

Recommendation

We recommend that management develop and implement a risk assessment program to periodically anticipate, identify, analyze, and manage the risk of asset misappropriation. The risk assessment program should be formally documented and become part of the City's financial policies and procedures manual.

We recommend that management develop and implement a monitoring program to periodically evaluate the operational effectiveness of internal controls. The monitoring process should be documented in order to facilitate the evaluation of controls and to identify improvements that need to be made.

Management's Response

The City has had strong internal controls handling cash and has not had a history of loss. Nevertheless, a risk assessment system is a good idea and we will review this suggestion and determine ways we can implement it.