

**CITY OF NEWTON, MASSACHUSETTS**

**MANAGEMENT LETTER**

**JUNE 30, 2015**



**CliftonLarsonAllen**

CliftonLarsonAllen LLP  
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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, 2015, 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 December 1, 2015, 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, the Board of Aldermen, Mayor, 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, MA  
December 1, 2015

CITY OF NEWTON, MASSACHUSETTS

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## **Prior Year Comments - Resolved**

### **Inspectional Services Department (ISD)**

Last year's management letter communicated the following matters related to the ISD:

- The ISD did not maintain formal financial policies and procedures
- The ISD performed reconciliations of fees by permit issued to cash receipts collected. However, the reconciliations were not signed and dated by the preparer and supervisory reviewer, nor were they filed for record-keeping purposes.
- Some of the cash receipt turnover forms submitted by ISD to the Treasurer's Office that we reviewed included revised forms that were resubmitted by ISD due to small clerical errors

During fiscal year 2015, procedures were implemented to resolve these matters.

### **Bigelow Middle School Student Activity Funds**

Last year's management letter communicated the following matters related to the Bigelow Middle School student activity funds:

- During fiscal year 2014, a standard turnover form was not utilized to document cash receipts collected
- Our inquiries identified that cash receipts were not consistently deposited within 48 hours of collection, as recommended by MASBO

During fiscal year 2015, procedures were implemented to resolve these matters.

### **Information Technology**

Last year's management letter communicated that an independent third party had not recently been utilized to conduct various tests of the City's information technology systems.

During fiscal year 2015, the City hired a third party to conduct various tests of their information technology systems.

## **Prior Year Comments – Partially Resolved**

## **Risk Assessment and Monitoring**

### Comment

Our prior year management letter contained various recommendations related to risk assessment and monitoring. During fiscal year 2015, the City continued to make progress in this area. The City's Risk Assessment Sub Committee of the Financial Audit Advisory Committee held regular meetings, identified various areas of risk to conduct further studies on and formally documented their progress through meeting minutes.

### Recommendation

We recommend management continue to 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.

We recommend 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

Implementation of this recommendation will require resources beyond those currently available. The Comptroller will discuss with the Audit Committee options for obtaining resources to address this issue in a more meaningful way.

## **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.

## **Prior Year Comments - Unresolved**

## **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.

## **Investment Policy for Certain Trust Funds**

### Comment

Our prior year management letter identified that certain trust funds maintained by the City were not governed by formal investment policies.

As of the date of this report, formal investment policies for these trust funds have not been developed and implemented.

### Recommendation

We recommend the City develop and adopt a written investment policy for those trust funds that are currently not governed by one. The policy should, at a minimum, address the following:

- Investment objectives
- Maximum amounts for investments and the approval criteria
- Types of authorized investments
- Desired mix of products (especially those considered to create risk)
- Goals for the amount of return expected
- Approved vendors of investment products
- The maximum length of time cash can be committed

### Management's Response

The Board of Aldermen approved an ordinance providing for the establishment of an Investment Advisory Committee, whose mission includes advising the City Treasurer/Collector on the investment of trust funds. The Committee includes the Chair of Finance and three City finance/accounting officers, ex officio, and four residents of the City, who are qualified by virtue of their education and experience in investment management. The investment of trust fund assets will be a subject of review during calendar year 2016, once the Committee is formally in place.

## **Current Year Comments**

## 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.