



FINANCIAL AUDIT ADVISORY COMMITTEE

Agenda

Thursday, February 17, 2022, at 8:00 AM

The Financial Audit Advisory Committee will hold this meeting as a virtual meeting on Thursday, February 17, 2022 8:00 am. To view this meeting use this link at the above date and time: <https://us02web.zoom.us/j/81656032470>

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Meeting ID: 816 5603 2470

Agenda Items

1. Review of Management Letter

CITY OF NEWTON, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2021

DRAFT

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, 2021, 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 REPORT DATE, 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.

Boston, Massachusetts
REPORT DATE

CITY OF NEWTON, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2021

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Prior Year Comments – Unresolved

DRAFT

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 2021, the police details billing and collection system was not integrated with the general ledger due to the recent conversion of payroll to the Munis accounting system.

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.

Management's Response

DRAFT

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 2022.
- 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.
- 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

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 to record permits issued. Reconciliations of permit fees recorded in the department's software 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 the department's software 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

Prior Year Comments – Partially Resolved

DRAFT

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 area for improvement remains for the City's consideration:

- Formal Reconciliations of Participants to Fees – The School Department recently began using a new online payment management system. As part of the continued implementation of this system, the School Department intends to implement formal reconciliations of participants to fees.

Recommendation

We recommend the School Department implement formal reconciliations of participants to fees.

Management's Response

DRAFT

Community Education

Comment

Our prior year Management Letter identified various areas for improvement related to the Community Education program (the program). Several of the areas for improvement have been resolved. The following area for improvement remains for the City's consideration:

- 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. Formal reconciliations (or analytical reviews) of class enrollments to fees collected are not being performed for all classes/courses.

Recommendation

We recommend the program analyze the cost/benefit of periodically performing and documenting formal reconciliations (or analytical reviews) of class enrollments to fees collected for all classes/courses.

Management's Response

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Current Year Comments

DRAFT

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 (which also does not comply with the City's own policy of 8 characters)
 - Password history is 5 passwords remembered

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 has not been performed since 2018. 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 two 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.
 - Some policies were last updated in 2004 (telecommunications) and 2010 (data security)
 - Other policies are not dated
 - The mobile device security policy is still labeled as being in draft form

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

- An internal vulnerability assessment and/or external penetration test has not been performed since 2018. 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.

Recommendation

We recommend the City implement the following recommendations:

- Update password requirements for standard network and application users to meet the following:
 - Minimum Password Length: 8-14 characters
 - Password History: 12-24 passwords remembered

Two alternate options are:

- Implement the use of passphrases (greater than 20 characters). If passphrases are implemented, complexity may be relaxed.
 - Implement multi-factor authentication organization-wide for remote work, as this is currently only set up for those working within IT.
- 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
- Leverage an outside firm to conduct an in-depth internal vulnerability assessment and external penetration testing

Management's Response

Covid-19 Grant

Comment

We performed various audit procedures on a Covid-19 grant received by the Health and Human Services Department (the department) and identified the following:

- There were several contracts/contract amendments associated with this grant. The last contract amendment executed with the Massachusetts Department of Public Health (MDPH) identified a contract end date of June 30, 2021.

Since part of the grant was funded by the Coronavirus Aid, Relief, and Economic Security Act (CARES) and the CARES end date was extended to December 31, 2021, the department believed they had until December 31, 2021 to expend the grant funds. However, this was not the case. MDPH had established June 30, 2021 as the cut-off date for expenses. Since MDPH was administering the grant and contracts were being executed with MDPH, their determination of the contract end date superseded the CARES Act end date.

As a result, as of June 30, 2021, the grant (which totaled \$349,457) had an unexpended balance of approximately \$174,000. In order to fully expend the grant and avoid having to return funds to MDPH, the City had to reclassify various fiscal year 2021 expenses and charge them to the grant.

With all grants, it is important to be clear on the “period of performance” (start dates and end dates) in order to incur and charge expenses during the proper period. This reduces the risks of unallowable expenses and enhances the ability to fully utilize grant awards and avoid returning surplus funds.

- As mentioned above, part of the grant was funded by the CARES Act (federal funding). The other part of the grant was funded by the State. The department did not communicate to the Comptroller’s Office that a portion of the grant was federally funded. As a result, account line items/codes could not be established in the Munis accounting system to segregate the federal portion of the grant. The use of specific account line items/codes to segregate federal grants allows the City to identify all of their federal grants for reporting purposes, which also impacts the “Single Audit” portion of the City’s annual independent audit.
- For various payroll expenses charged to the grant, some of the related timesheets/time logs were not signed by employees or the department head. Signed timesheets (or other forms of documentation, such as email approvals, etc.) provides evidence that time and effort charged to the grant was reviewed and authorized.
- Expense reports that were filed for the grant did not reconcile to the general ledger and were filed after the deadline dates

Recommendation

While this comment pertains to a grant administered by the Health and Human Services Department, the recommendations below apply to all City departments that receive grants:

- Emphasize/strengthen procedures to determine, monitor and adhere to the period of performance (start dates and end dates) for all grants
- Emphasize/strengthen procedures to determine if grant awards (and/or portions of grant awards) are federally funded. All federally funded grants must be communicated to the Comptroller’s Office.
- Emphasize/strengthen procedures to document the review and authorization of timesheets/time logs

- Emphasize/strengthen procedures to reconcile all grant expense reports to the general ledger
- Emphasize/strengthen procedures to file all grant reports by their deadline dates

Management's Response

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Informational Comments

DRAFT

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