

**CITY OF WORCESTER, MASSACHUSETTS**

**MANAGEMENT LETTER**

**JUNE 30, 2009**





Certified Public Accountants

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To the Honorable Mayor and City Council  
City of Worcester, Massachusetts

In planning and performing our audit of the financial statements of the City of Worcester, Massachusetts (City) as of and for the year ended June 30, 2009, 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, during our audit we 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 October 31, 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 Mayor, the City Council and others within the organization and should not be used by anyone other than these specified parties.

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October 31, 2009

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CITY OF WORCESTER, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2009

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TABLE OF CONTENTS

	Page
Comments and Recommendations.....	1
Permanent Full-Time Treasurer/Collector .....	1
Enterprise Funds – Operating Fund Cash Balances.....	2
Real Estate and Personal Property and Motor Vehicle Excise Tax Exemptions and Abatements.....	3
Encumbrances .....	4
Airport.....	5
City Clerk.....	7
Student Activity Funds .....	10
Water and Sewer.....	13
Accounts Receivable Reconciliations .....	14
Authorized and Unissued Debt.....	15
Risk Assessment and Monitoring.....	17
Hope Cemetery .....	19
Library .....	20
License Commission.....	21
Green Hill Golf Course .....	22
New Accounting and Financial Reporting Requirements for Fund Balances.....	24

## **Comments and Recommendations**

### **Permanent Full-Time Treasurer/Collector**

#### Comment

The City has been without a permanent full-time Treasurer/Collector since September 2008. Since that time, the Treasurer/Collector's duties have been performed by the Chief Financial Officer and various staff within the Treasurer/Collector's office.

Without a permanent full-time Treasurer/Collector, the City is at risk of experiencing breakdowns in internal controls over significant financial activities and operations, including cash receipts, cash disbursements, bank and cash reconciliations, accounts receivable and accounts receivable reconciliations.

Breakdowns in internal controls in the Treasurer/Collector's office inhibit the timely detection of errors and/or irregularities, which is a weakness in internal controls.

#### Recommendation

The City has been conducting a search for a permanent full-time Treasurer/Collector for over a year. We recommend the City expedite this process as much as possible and hire a qualified individual to fill this critical position.

#### Management's Response

The City recognizes the importance of a full time City Treasurer and Collector of Taxes to the overall financial stability of the City. On two occasions the City has unsuccessfully sought out applicants. In January 2010, the City enlisted the services of the John W .McCormack Graduate School of Policy Study to assist in the recruitment of candidates to fill the position.

## Enterprise Funds - Operating Fund Cash Balances

### Comment

The Massachusetts Department of Revenue (DOR) has the authority to require the City to raise cash deficits (via the annual tax recapitulation) in enterprise funds, even if such cash deficits are temporary in nature.

As of June 30, 2009, the Water and Sewer Enterprise Fund's operating funds had cash balances of approximately \$1,147,000 and \$282,000, respectively. The City must be cautious to monitor the cash balances in these funds in order to prevent a cash deficit from occurring.

### Recommendation

We recommend the City implement policies and procedures to monitor operating fund cash balances in Enterprise Funds.

### Management's Response

The administration recognizes the adverse effect that all enterprises funds (Water, Sewer, Greenhill Golf Course and Airport) could have on the City's General Fund budget and will incorporate the analysis of these enterprise operations into the monthly departmental reviews as well as the quarterly updates to the City Council.

## Real Estate and Personal Property and Motor Vehicle Excise Tax Exemptions and Abatements

### Comment

During our testing and internal controls evaluation of real estate and personal property and motor vehicle excise tax exemptions and abatements, we identified the following deficiencies:

1. None of the 25 real estate and personal property tax exemptions we tested contained approval signatures on the exemption application. Approved exemption applications should be signed by the appropriate City official(s) to provide evidence that the exemption is authorized and in compliance with Massachusetts General Laws (MGL).
2. For 10 of the 40 abatements we tested for real estate and personal property taxes, the Assessor's office could not locate the approval signatures on the abatement applications, either because the approval signatures did not exist or they were not appropriately filed. Approved abatement applications should be signed by the appropriate City official(s) to provide evidence that the abatement is authorized and in compliance with MGL.
3. Exemptions excluded from each motor vehicle excise tax commitment are not reviewed prior to the tax bills being sent. Documented reviews of motor vehicle excise tax exemptions by the appropriate City official(s) would provide evidence that the exemptions are appropriate and in compliance with MGL.

### Recommendation

We recommend the City implement policies and procedures requiring approval signatures on real estate and personal property tax exemption and abatement applications. Each exemption and abatement application must be filed as a permanent record for a minimum of seven (7) years, as required by MGL.

We recommend the City implement policies and procedures requiring documentation of an approval process of motor vehicle excise tax exemptions.

### Management's Response

In fiscal year 2010, the City will implement procedures requiring supervisory approval for the granting of tax exemptions and abatements for all tax types. The procedures will also ensure that the statutory record retention requirements of the MGL are adhered to.

## Encumbrances

### Comment

During our testing of encumbrances, we identified approximately \$800,000 of encumbrances for electric supply and service of the Worcester Public Schools that did not relate to fiscal year 2009 obligations. In order to encumber funds from the annual budget for a particular fiscal year, a commitment must be made in the form of a binding contractual obligation to purchase goods or services from that fiscal year's budget appropriation.

### Recommendation

We recommend the City implement procedures to close the encumbrance identified above.

We recommend the City implement policies and procedures to only encumber remaining appropriations at fiscal year-end for commitments in the form of a binding contractual obligation to purchase goods or services from that fiscal year's budget appropriation.

### Management's Response

The Worcester Public Schools' Business Office and City Budget Office will implement year end closure procedures to ensure compliance with the directive promulgated by the Department of Revenue regarding year end encumbrances for the Worcester Public Schools.

The City Auditing Department will only allow expenditures for invoices dated in a subsequent fiscal year with a purchase order charged to the prior year's budget for the purchase of school supplies and books that were ordered on or before June 30.

## Airport

### Comment

We evaluated the systems of internal control related to the Worcester Regional Airport (Airport) and identified the following deficiencies:

1. There is no formal financial policies and procedure manual that details the financial operations of the Airport. Such a manual would define, improve and standardize procedures and eliminate inconsistencies in the processes surrounding the financial activities of the Airport. It would also enhance the ability to train and supervise new staff in the event of employee turnover.
2. The supervisory review of cash receipts prior to being deposited in the bank are not documented. Documentation of supervisory reviews of deposits provides evidence of internal controls over the accuracy and completeness over cash receipts.
3. The Airport typically makes deposits to the bank only when cash collections total anywhere from \$10,000 to \$20,000. This is a weakness in internal controls over the safeguarding of assets and has a negative impact on maximizing investment income.
4. The Airport outsources aviation fueling services to a third party. The third party pays the Airport a monthly commission (fuel surcharge) based on the amount of fuel pumped. We identified that there are no policies and procedures in place for the Airport to track the amount of fuel pumped each month. This does not provide assurance that fuel surcharges received are accurate and complete.
5. The Airport bills customers for various services and activities, such as electricity and land leases. Amounts owed from customers for Airport services are not forwarded to the City Auditor's office and recorded on the general ledger as accounts receivable.

As a result, monthly reconciliations of outstanding accounts receivable cannot be performed between the Airport and the general ledger. Proper internal controls require all accounts receivable to be accounted for and recorded on the general ledger.

6. The Airport outsources collections of parking fees to a third party. We identified the following deficiencies related to parking fees:
  - a. The third party maintains a pre-numbered receipt book to track cash receipts. Copies of the receipts are included with the parking fees turnover provided to the Airport. Our review of the parking fees turnovers identified instances in which the pre-numbered receipts were not in sequential order. For receipt numbers out of sequence, there was no documented support for the reason(s), such as a voided transaction, a manual error made by the lot attendant that required the receipt to be replaced, etc. The current process does not provide assurance that parking fees received are accurate and complete.
  - b. The third party also maintains a log of vehicles entering the parking lot. The log is included with the parking fees turnover provided to the Airport. The third party does not provide (nor does the Airport perform) reconciliations of the vehicle log to the pre-numbered receipts. The current process does not provide assurance that parking fees received are accurate and complete.

## Recommendation

We recommend the Airport:

1. Prepare a formal, detailed financial policies and procedures manual that details all aspects and internal controls of its financial operations
2. Implement policies and procedures requiring documentation of supervisory review and sign-off of cash receipts prior to deposit
3. Deposit receipts within 24-48 hours of collection. To assist in making more frequent deposits, we recommend the Airport evaluate automated technologies that allow deposits to be made on-site instead of at the bank.
4. Implement policies and procedures to track the amount of fuel pumped each month for the purpose of reconciling fuel surcharges to fuel pumped
5. Implement policies and procedures whereby an accounts receivable for Airport services billed is recorded and maintained on the general ledger
6. Implement policies and procedures to:
  - a. Require the third party to provide documented support for pre-numbered receipts out of sequence
  - b. Require the third party to provide reconciliations of the vehicle log to pre-numbered receipts or perform such reconciliations "in-house"

## Management's Response

On August 15, 2009 (fiscal year 2010) the City converted the Airport's financial operations and reporting over to the City's Integrated Financial Management System (IFMS) from the legacy systems and reporting previously utilized by the Airport. The conversion encompassed two main facets of Airport financial operations; revenue recognition and accounts receivable.

This conversion provides for all Airport operating revenues being recognized into the City's IFMS, through the use of the City's Receipts Manager (RM) module via an electronic means, replacing paper journal entries. The conversion also included the process of issuing billings through the utilization of the City's IFMS Miscellaneous Receivables (MR) module.

With this implementation, the City also produced detailed procedure manuals which not only documented all aspects of the financial operations but also addressed the internal control deficiencies observed with the implementation. All receipts are reviewed and approved for accurateness and timeliness by Budget Office staff prior to being transmitted to the Treasurers Office for receipt.

Two additional financial items noted by the independent auditors (reconciliation of fuel flowage to the fuel surcharge and reconciliation of third party parking activity) shall be addressed with additional procedures being implemented in fiscal year 2010.

## City Clerk

### Comment

We evaluated the systems of internal control related to the City Clerk department (the department) and identified the following deficiencies:

1. There is no formal financial policies and procedure manual that details the financial operations of the department. Such a manual would define, improve and standardize procedures and eliminate inconsistencies in the processes surrounding the financial activities of the department. It would also enhance the ability to train and supervise new staff in the event of employee turnover.
2. Some of the department's receipts are received through the mail. The employees responsible for opening the mail forward the receipts to another employee who is responsible for processing the receipts through the department's cash register system.

The employees opening the mail do not prepare daily logs of receipts received through the mail. Therefore, daily cash receipts cannot be reconciled to a log of receipts received through the mail. Such procedures would strengthen internal controls over receipts and provide additional assurance that all receipts are being processed through the cash register.

3. All employees with access to the cash register have a unique identification number that is used to access the register. All employees with access to the register can open the register by ringing in a "No-Sale" transaction. At the end of the day, the register tape will only show instances of the register being opened through "No-Sale" transactions, but will not indicate which employee or employees (via identification number) opened the register through a "No-Sale" transaction. Therefore, if cash receipts were stolen or misplaced, the department would be unable to identify the employee(s) that accessed the register during the day via "No-Sale" transactions.
4. Deposit turnovers and the related supporting documents (Daily Cash Sheets) are not reviewed prior to submission to the Treasurer/Collector's Office (T/C). Supervisory reviews of deposit turnovers (and the related supporting documents) reduce the potential for human error and asset misappropriation.
5. We identified the following deficiencies related to transactions voided in the cash register:
  - a. All employees with access to the cash register can void a transaction without supervisory approval. The current process does not provide assurance over the validity of voided transactions.
  - b. Proper support for voided transactions is not maintained. Voids are supported by print-outs of the voided transaction marked "Void". The department does not require the reason(s) for the voided transactions to be documented on the print-outs of the voided transactions. The current process does not provide evidence over the validity of voided transactions.
  - c. The daily register report does not automatically reduce total cash receipts for voided transactions. In performing daily cash receipt reconciliations, the department must take the register total and manually subtract voided transactions by examining the support for voided transactions. This process is inefficient, susceptible to human error and increases the risk of asset misappropriation.

## Recommendation

We recommend the department:

1. Prepare a formal, detailed financial policies and procedures manual that details all aspects and internal controls of its financial operations
2. Implement policies and procedures to maintain a daily log of receipts received through the mail. An employee of the department other than the employees who open the mail and log the receipts should reconcile the daily cash register tape to the daily receipt log and document the reconciliation.
3. Investigate whether the cash register can produce reports that identify the employee(s) that entered "No-Sale" transactions or implement mitigating controls to limit the authority to enter "No-Sale" transactions to only certain employees
4. Implement policies and procedures requiring supervisory review and sign-off of deposit turnovers (and related support) before they are submitted to the T/C
5. Implement policies and procedures to:
  - a. Require documented supervisory approval of voided transactions
  - b. Require each voided transaction to be supported by documented explanations for the reason(s) for the voided transactions
  - c. Investigate whether the cash register can automatically reduce total cash receipts for voided transactions

## Management's Response

1. A financial policies and procedures manual is in process of being developed that will encompass all aspects of the processes connected to the revenue collection operations of the City Clerk Department.
2. The revenue that is received through the mail is opened and processed only by an Assistant City Clerk or the City Clerk. The current system functions well because customers anticipate receiving a response in the form of electronically generated documents and a receipt that the fee has been transmitted. Customers who do not receive a response to their request and payment inquire as to the whereabouts of their document(s). The assurance to the City that revenue received is transmitted through the register is that the documents requested and paid for are received by the requestor and that there is no pattern of non-receipt in evidence at the department. Creating a log of each piece of mail containing revenue would be a time consuming task; that amount of daily time is not determined either by the outside auditor nor the department. A cost/benefit analysis, at the very least, should be conducted by the outside auditor who recommended this new process to establish whether the cost of additional staff time is warranted in light of the fact that the current system has never been faulted in the past and has, in the department's view, employed this system of checks and balances involving the customer.
3. The outside auditor makes reference to misplaced or stolen receipts and is critical that all employees at the office have access to the cash register. Again, the daily cash collected routinely balances with the documents being transacted, proving the current system works well. If the outside auditor is recommending that there be only one designated "cashier" in the office, then there should be a cost estimate associated with that recommendation so that the cost/benefit can be determined.

4. Supervision is incorporated into the deposit process and either an Assistant City Clerk or the City Clerk is routinely consulted in the daily balancing and depositing of receipts. If the outside auditor wishes to have a supervisor "sign-off" that can and will be incorporated into the process immediately.
5. The outside auditor is critical that transactions being voided do not gain supervisory approval. An example of a document being voided may be a misprint of a numbered copy of a birth record. The misprinted document is voided in handwriting and filed with the daily receipts for reconciliation at the end of the day. There is no value of obtaining supervisory approval for these voided transactions because the numbered documents are retained. In this "point of sale" atmosphere with greatly reduced staff, obtaining supervisory approval seems most unnecessary. Imagine if there was only one cashier at your local supermarket and that cashier needed to call a supervisor each time a correction was needed to your list of purchases. There is a point in the collection of revenues that supervisors need to be involved and this is not one of them because the voided numbered documents are retained for reconciliation purposes.

The daily cash register report is adjusted manually to account for voids. It is less efficient, yes, but does the cost of a more sophisticated cash collection system outweigh the benefit? This cost and the cost of additional staff to satisfy some of the other comments of the outside auditor need to be considered.

## Student Activity Funds

### Comment

#### *South High Community School*

We evaluated the systems of internal control related to the South High Community School's (School) student activity funds and identified the following deficiencies:

1. 10 of the 12 monthly reconciliations of the student activity fund checking account did not have signatures indicating that supervisory personnel reviewed them. Proper internal controls require supervisory reviews of bank reconciliations to reduce the potential for errors, omissions and other irregularities that could occur and go undetected.
2. No monthly reconciliations were performed of the total balance of the School's student activity funds to the balances of the School's agency and checking accounts. Since the agency and checking accounts are the only bank accounts used for the School's student activities, the sum of their reconciled balances (i.e. book balances) should always equal the sum of the individual student activity fund balances maintained by the School. This reconciliation provides assurance that the student activity funds' balances are properly stated.
3. Our testing of disbursements identified the following:
  - a. A signature (authorizing payment) did not exist on 15 of the 20 invoices tested
  - b. The marking "Paid by Check Number XXX" (as required by the student activity funds' policies and procedures approved by the Worcester School Committee) did not exist on 14 of the 20 invoices tested
  - c. The marking "Date of Payment XX/XX/XX" (as required by the student activity funds' policies and procedures approved by the Worcester School Committee ) did not exist on 14 of the 20 invoices tested
4. None of the 20 revenue postings tested were substantiated by receipts that were provided to the individual(s) that turned in the funds. The student activity funds' policies and procedures approved by the Worcester School Committee require receipts to be issued immediately upon receipt of funds by the student activity account bookkeeper or advisor. A copy of the receipt is to be given to the person from whom the money is received, with duplicate copies to be retained by the Principal or designee as a permanent record and provided to the City Treasurer as documentation of deposits made into the student activity agency account. These procedures were not followed for any of the 20 revenue postings tested.
5. An annual report was not prepared and submitted by the School to the Worcester School Business Office (Business Office). The student activity funds' policies and procedures require the School to forward an annual report to the Business Office that reflects the status of the checking account (i.e., proof of the bank reconciliation).

### *Student Activity Fund Checking Account Reconciliations*

We examined the June 30, 2009 bank account reconciliations for each of the City's student activity fund checking accounts and identified that six (6) of the eleven bank account reconciliations did not have signatures indicating that supervisory personnel reviewed them. Proper internal controls require supervisory reviews of bank reconciliations to reduce the potential for errors, omissions and other irregularities that could occur and go undetected.

### *Compliance with MGL Chapter 71, Section 47*

MGL Chapter 71, Section 47, which establishes various guidelines related to student activity funds, states the following:

"There shall be an annual audit of the student activity funds which shall be conducted in accordance with procedures as agreed upon between the school committee and the auditor based upon guidelines issued by the department of education."

An annual audit (internal or external) or agreed upon procedures on each of the Worcester Public Schools' student activity funds is not being performed. To our knowledge, the City has eleven schools with student activity funds. During the past five (5) fiscal years, we have performed a total of three (3) separate evaluations of the internal controls of three (3) individual schools as part of the City's annual audit. We are not aware of any other audits or agreed upon procedures that have been performed in the past 5 fiscal years other than the evaluations we have conducted.

Based upon the MGL requirement, inherent risks associated with student activity funds and the results of our 3 evaluations over the past 5 fiscal years, we believe the performance of annual audits or agreed-upon procedures on each of the Worcester Public Schools' student activity funds would be prudent.

### Recommendation

#### *South High Community School*

We recommend the School:

1. Implement procedures to require all monthly student activity fund checking account reconciliations be reviewed and approved by supervisory personnel
2. Implement procedures to reconcile the total student activity fund balances to the book balances of the agency and checking accounts monthly
3. Implement procedures to require each invoice be signed by the appropriate School employee and marked according to the policies and procedures approved by the Worcester School Committee
4. Implement procedures to adhere to the student activity funds' policies and procedures related to receipts for each student activity fund cash collection
5. File an annual report with the Business Office that includes proof of the reconciliation of the checking account

### *Student Activity Fund Checking Account Reconciliations*

We recommend the Business Office implement procedures to require all student activity fund bank reconciliations be reviewed and approved by supervisory personnel.

### *Compliance with MGL Chapter 71, Section 47*

We recommend the Worcester Public Schools comply with the requirements of MGL Chapter 71, Section 47 by having annual audits or agreed-upon procedures performed on each school's student activity funds.

### Management's Response

The Worcester Public Schools (WPS) will provide guidance to schools to ensure that all monthly reconciliation statements are signed by school supervisory personnel prior to the issuance of checking account reimbursements. In addition, the WPS will assist the individual schools to reconcile the total student activity fund balances to the book balances of the agency and checking accounts on a monthly basis. Also, the WPS will provide guidance to schools to ensure that all invoices are signed by the appropriate school employee and marked to the policies and procedures of the Worcester School Committee. The WPS will sample invoices as part of the reimbursement process. The WPS will ensure that all receipts are properly recorded for each student activity fund cash collection.

## Water and Sewer

### Comment

We evaluated the systems of internal control related to water and sewer revenues and identified the following deficiencies:

1. There is no formal financial policies and procedure manual that details the water and sewer billing process. Such a manual would define, improve and standardize procedures and eliminate inconsistencies in the processes surrounding water and sewer billing. It would also enhance the ability to train and supervise new staff in the event of employee turnover.
2. Water and sewer receipts are not interfaced with the City's Integrated Financial Management System (IFMS). As a result, the Treasurer/Collector and Auditing offices must perform time-consuming manual procedures to enter and post water and sewer revenues to the general ledger. The current practice is inefficient and susceptible to human error.

### Recommendation

We recommend the City:

1. Prepare a formal, detailed financial policies and procedures manual which details all aspects and internal controls related to water and sewer billing
2. Implement policies and procedures to interface water and sewer receipts with IFMS

### Management's Response

A comprehensive procedures manual documenting the data collection through to the commitment of water and sewer bills shall be developed in fiscal year 2010.

Relating to the electronic posting (interface) of water/sewer receipts, the IFMS module does not contain this inherent capability and a rewrite of the system is required for this capability. As an interim step, the Treasurer's Office is reviewing the possibility of batch posting water/sewer receipts.

## Accounts Receivable Reconciliations

### Comment

At June 30, 2009, the following accounts receivable variances exist between the general ledger and Collector and departmental balances:

<u>Accounts Receivable</u>	<u>Variance</u>
Real estate taxes	\$ 212,973
Sewer user charges	78,183
Water user charges	43,699
Police off-duty details	33,574
Parking tickets	11,340
Water liens	9,289
Tax liens	5,855
Sewer liens	4,242
Trash bags	1,125
Motor vehicle excise taxes	313
Special assessments	236
Personal property taxes	149

While these variances were immaterial to the City's audited financial statements, proper internal controls require accounts receivable to be reconciled to provide assurance that transactions have been properly recorded.

### Recommendation

We recommend the City implement policies and procedures to investigate and resolve all variances between accounts receivable balances of the general ledger and Collector (and other departments) monthly.

### Management's Response

As noted the receivable reconciliations of the City have immaterial variances between the General Ledger and the respective Subsidiary Ledgers. These variances are predominantly attributable to prior years. In fiscal year 2010, the City will attempt to identify these variances and adjust the City's records accordingly.

## Authorized and Unissued Debt

### Comment

At June 30, 2009, the City has several old borrowing authorizations for which debt has not been issued and the authorizations have not been rescinded. As a frame of reference, the following table summarizes authorized and unissued borrowing authorizations greater than two (2) years old as of June 30, 2009:

<u>Fiscal Year of Loan Authorization</u>	<u>Authorized and Unissued Debt Balance</u>
1988	\$ 71,400
1990	100,000
1994	230,000
1995	78,000
1996	440,500
1997	4,000
1998	4,046,000
1999	2,000
2000	175,000
2001	1,060,000
2002	12,217,000
2003	1,122,688
2004	2,910,000
2005	7,145,000
2006	83,605,937
2007	113,728,000

While some of the authorized and unissued debt identified above relates to projects the City is still planning to undertake (for example, a majority of the fiscal year 2006 authorized and unissued debt relates to the CitySquare project), there may be authorized and unissued balances for projects the City no longer intends to borrow money for. While the City is allowed to use old borrowing authorizations to fund new projects similar to the original purpose of the authorizations, the new projects might not meet the intent of the original authorizations.

For example, we identified an instance in which a proposed project related to upgrades and improvements to the Providence Street fire station (for the purpose of subsequently leasing the building to a tenant) was to be funded by borrowing authorizations from fiscal years 1988 and 1996. While these borrowing authorizations were for a similar generic purpose (building rehabilitation), the original intent of the borrowing authorization was not necessarily for this specific project.

### Recommendation

We recommend the City implement policies and procedures to periodically review unissued borrowing authorizations and to rescind authorizations for projects the City no longer intends to borrow money for.

### Management's Response

Although carrying authorized and unissued loan orders on the City's financial statements does not have adverse consequences to overall financial position, the administration shall review all outstanding loan authorizations annually with the submission of the five year capital improvement program and will recommend rescission of any loan authority which it determines to be not required.

## Risk Assessment and Monitoring

### Comment

The City has performed various risk assessment and monitoring procedures over the past few fiscal years, such as evaluating and refining revenue and cash receipt policies and procedures and conducting periodic departmental reviews and assessments. While these procedures relate to risk assessment and monitoring, more extensive measures must be taken in order to fully establish a comprehensive risk assessment and monitoring program.

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 the City's financial management team 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 the City's financial management team 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 evaluates its internal controls weighing the costs versus the benefits. Although the City does have many controls in place and does perform periodic reviews, it does not currently have the resources to do risk assessments to the extent recommended by the auditor, which would require full-time internal auditors.

## Hope Cemetery

### Comment

During the prior year audit, we evaluated the systems of internal control related to the Hope Cemetery and identified several deficiencies. During fiscal year 2009, the Hope Cemetery implemented controls to resolve most of these deficiencies. However, the following deficiency remains unresolved:

- The Hope Cemetery generates invoices for lot sales and other services. The Hope Cemetery's system of internal control over the accounts receivable does not include providing a commitment to the City Auditor. Therefore, there is no external control over the accounts receivable and there are no reconciliations of outstanding receivables performed between the Hope Cemetery's detailed receivable records and a control account maintained by the City Auditor on the general ledger. This does not provide the City with adequate control over this asset.

### Recommendation

We recommend the Hope Cemetery implement a process whereby accounts receivable for lot sales and other services are recorded and maintained on the general ledger and reconciled with the Hope Cemetery's detailed receivable records.

### Management's Response

The process and procedure for documenting lot sales and other ancillary services was completed in fiscal year 2009. Since July 2009, monthly detailed accounts receivable reports have been produced and forwarded to the Auditing Department for inclusion into the City's financial statements.

## Library

### Comment

During the prior year audit, we evaluated the systems of internal control related to the Library and identified several deficiencies. During fiscal year 2009, the Library implemented controls to resolve some of these deficiencies. However, the following deficiencies remain unresolved:

1. All Library employees have access to customer account balances in the Library's financial software program (C/W MARS). As a result, customer account balances may be accessed by unauthorized personnel.
2. The Library does not perform daily reconciliations between cash collections recorded in C/W MARS to cash counted at the end of the day. Performance of these reconciliations provides assurance that the proper amount of cash has been collected and recorded.
3. Deposit turnovers are not reviewed prior to submission to the Treasurer/Collector's Office (T/C). Supervisory reviews of deposit turnovers reduce the potential for human error and asset misappropriation.

### Recommendation

We recommend the Library:

1. Implement policies and procedures to mitigate the risk of unauthorized access to customer accounts
2. Implement procedures to perform daily reconciliations between cash collections recorded in C/W MARS to cash counted at the end of the day
3. Implement procedures requiring supervisory review and sign-off of deposit turnovers before they are submitted to the T/C

### Management's Response

The Worcester Public Library, as part of a regional library system, utilizes a shared computer system (C/W/MARS) which has limitations in terms of restricting user access. The City will attempt to request enhancements limiting user access by function.

With the conversion of the Library to the City's IFMS Receipts Manager system, procedures for supervisory approval and reconciliations were developed and will be adhered to in fiscal year 2010.

## License Commission

### Comment

During the prior year audit, we evaluated the systems of internal control related to the License Commission (the Commission) and identified several deficiencies. During fiscal year 2009, the Commission implemented controls to resolve one of these deficiencies. However, the following deficiencies remain unresolved:

1. The Commission maintains an automated log of the licenses and permits issued. However, the log does not contain information related to amounts paid, the dates of payment and license/permit number. As a result, reconciliations between cash collections and the number of licenses and permits issued cannot be performed. Performance of these reconciliations provides assurance that the proper amount of cash has been collected and recorded for the licenses and permits issued by the Commission.
2. Deposit turnovers are not reviewed prior to submission to the Treasurer/Collector's Office (T/C). Supervisory reviews of deposit turnovers reduce the potential for human error and asset misappropriation.

### Recommendation

We recommend the Commission:

1. Fully utilize the automated log of licenses and permits issued by entering the following information into the log:
  - a. Date paid
  - b. License/permit number issued
  - c. Amount paid

We also recommend that the Commission utilize the automated log to reconcile cash receipts to the number of licenses and permits issued on a daily basis. The reconciliations should be reviewed and signed-off by the preparer and reviewer and maintained on file.

2. Implement procedures requiring supervisory review and sign-off of deposit turnovers before they are submitted to the T/C

### Management's Response

The License Commission financial activity, billing and collection were converted to the City's IFMS for the January 1, 2010 renewal cycle. With this conversion, receivables records were established for all licenses and permits.

## Green Hill Golf Course

### Comment

During prior years' audits, we evaluated the systems of internal control related to the Green Hill Golf Course (Green Hill) and identified several deficiencies. During fiscal years 2008 and 2009, Green Hill implemented controls to resolve some of these deficiencies. However, the following deficiencies remain unresolved:

1. While the process of writing a formal financial policies and procedure manual has started, a completed manual that details the various aspects of Green Hill's operations does not exist. Such a manual would define, improve and standardize procedures and eliminate inconsistencies in the processes surrounding Green Hill's operations. It would also enhance the ability to train and supervise new staff in the event of employee turnover.
2. The cash registers at Green Hill are used by multiple employees during the day. Therefore, any variances identified in the cash count at the end of the day cannot be traced to a single employee.
3. Green Hill sponsors various tournaments throughout the year. There is presently no reconciliation performed between a listing of tournament participants and the revenue recorded in Green Hill Point-of-Sale (POS) system. This reconciliation procedure would provide assurance that each participant paid the proper fees and that all fees collected were recorded.
4. Several deposits we reviewed were not made in a timely manner (within 24-48 hours from collection). The lack of timely deposits is a weakness in safeguarding assets and increases the risk of asset misappropriation. It also inhibits timely and accurate financial reporting since there are delays in recording revenue in the general ledger.
5. Cash receipts recorded in the POS system are not reconciled to those recorded in the general ledger. As a result, there is no assurance that revenues are properly recorded in the general ledger.

### Recommendation

We recommend Green Hill:

1. Prepare a formal, detailed financial policies and procedures manual for Green Hill's operations
2. Implement policies and procedures to require employees to log in and out of the registers so that a record of transactions processed by each employee is maintained
3. Implement procedures to reconcile tournament receipts recorded in the POS system to a detailed listing of participants on the day of the tournament. In addition, the detailed listing of participants should be filed and maintained as a permanent record.
4. Deposit all receipts in a timely manner (within 24-48 hours from collection)
5. Implement procedures to reconcile cash receipts recorded in the POS system to cash receipts recorded in the general ledger on a monthly basis

### Management's Response

The City has converted the Golf Course Enterprise revenue recognition to the City's IFMS Receipts Manager (RM) and has developed an initial procedures manual. Said manual shall be enhanced to incorporate the activities of the point of sale (POS) register concerns noted by the independent auditors.

The procedures manual includes oversight to Golf Course Enterprise revenue recognition with the Department of Public Works providing supervisory approval for all deposits with the City Treasurer, to ensure the timeliness of deposits, as well as reconciliations of deposits to the City's General Ledger.

The Golf Course Enterprise has also developed a methodology for compiling tournament participants and reconciling this activity to the Golf Course Enterprise POS register.

## New Accounting and Financial Reporting Requirements for Fund Balances

### Comment

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and to clarify the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that will be made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with loans receivable. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

Governments will also be required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements will be required.

This Statement also provides guidance for classifying stabilization funds on the face of the balance sheet and requires disclosure of certain information about stabilization funds in the notes to the financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

Implementation of this statement will improve financial reporting by:

- Providing fund balance categories and classifications that will be more easily understood
- Eliminating the *reserved* component of fund balance in favor of a *restricted* classification to enhance the consistency between information reported in the government-wide statements and information reported in the governmental funds financial statements
- Requiring governments to classify amounts consistently, regardless of the fund type or column in which they are reported
- Providing disclosures to give users information necessary to understand the processes under which constraints are imposed upon the use of resources and how those constraints may be modified or eliminated
- Reducing uncertainty about which resources can or should be reported in the respective governmental fund types

Given the significance of fund balance amounts (both quantitatively and qualitatively), the fund balance reporting under the new standard will have a significant impact on the City's financial statements.

The City's required implementation date of GASB Statement No. 54 is fiscal year 2011.

Recommendation

We recommend that management familiarize itself with GASB Statement No. 54 to prepare for its implementation. We would be pleased to assist the City with its preparation for implementing the new standards.

Management's Response

It is our intention to become completely familiar with GASB 54 and implement it in the City's fiscal year 2011 Comprehensive Annual Financial Report.