

**CITY OF WORCESTER, MASSACHUSETTS**

**MANAGEMENT LETTER**

**JUNE 30, 2017**



To Management  
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, 2017 (except for the Worcester Retirement System, which is as of and for the year ended December 31, 2016), 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 audit procedures that are appropriate in the circumstances 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 matters that are opportunities to strengthen your internal control and improve the efficiency of your operations. Our comments and suggestions regarding those matters are summarized in the memorandum that accompanies this letter. This letter does not affect our report dated December 19, 2017, on the financial statements of the City.

We will review the status of these comments during our next audit engagement. We have already discussed many of 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 response 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 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 'CliftonLarsonAllen LLP'.

**CliftonLarsonAllen LLP**

Boston, MA  
April 30, 2018

CITY OF WORCESTER, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2017

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## Comments and Recommendations

### Golf Enterprise Fund

#### Comment

We identified the following related to the Golf Course enterprise fund:

#### *Revenues*

- We tested twenty-nine (29) transactions recorded to various revenue accounts (other than lease and commission revenue) in the golf enterprise fund and identified the following:
  - To record revenues in the general ledger, the Department of Public Works (DPW) prepares a spreadsheet of revenue line item totals based on a daily sales report from GolfNow, the accounting system used by the golf course. The spreadsheets are not signed and dated by preparers and reviewers. Such sign offs enhance the audit trail, assign responsibility and provide for supervisory reviews of transactions prior to general ledger entry.

In addition, it may be possible to edit the charts of accounts in GolfNow and/or the general ledger in a manner that would allow DPW to enter revenues directly into the general ledger from a GolfNow report without the need to prepare an intermediate spreadsheet, saving time and creating efficiencies.
  - The golf course enters user fees into the GolfNow system based on the fees that are voted and approved by the City. As part of the process referred to above, the DPW does not perform formal, documented verifications of the user fee rates as reported in the GolfNow daily sales report to the user fee rates voted and approved by the City. This would add an additional layer of assurance from the DPW that the proper user fees are being charged. In addition, the DPW does not formally reconcile daily totals to the related bank deposit made by the golf course. This would provide additional assurance over revenues.
  - Common practice is for DPW to record revenues on a daily basis the next business day. We identified that for 10 of the 29 transactions tested, multiple days of activity was recorded in the general ledger, ranging from 3 days to 6 days of activity. Entering revenues on a daily basis promotes timely financial reporting and decreases the risk of errors and irregularities.
  - The golf course enterprise fund receives lease payments from the golf course restaurant. We identified that fiscal year 2017 lease revenues per the general ledger did not reconcile to the City's contract with the restaurant. While the variance was immaterial to the City's audited financial statements, revenues received from written contracts (such as leases) should be reconciled to ensure compliance with the contract.
- The golf course enterprise fund receives commissions from the golf course restaurant. We tested all transactions (11) recorded to commission revenues and identified the following:
  - The November 2016 commission was not recorded in the general ledger until May of 2017 and the March 2017 commission was not recorded in the general ledger. While golf course commission revenues are immaterial to the City's audited financial statements, commission revenues should be recorded and reconciled monthly.

- Per the City's contract with the restaurant, the commission percentage went up from 2.5% to 2.6% starting in January 2017. The January 2017 commission recorded in the general ledger was based on 2.5%. While golf course commission revenues are immaterial to the City's audited financial statements, monthly revenues received from written contracts (such as commissions) should be recorded and reconciled monthly, which includes ensuring that payments are in compliance with the contract.
- To track daily activity, the golf course enters players and tee times in GolfNow as they are scheduled. A daily report of tee times is printed in the morning and given to a part-time "starter" at the first hole, who marks up the print out as players start their rounds. However, the golf course does not employ full-time starters and therefore the tracking of players at the first hole (or 10<sup>th</sup> hole) does not occur all day and is not a complete and accurate representation of the day's activity. As such, the golf course cannot perform complete independent reconciliations of daily greens fees per GolfNow to tallies of players and carts tracked by a starter.
- The golf course offers memberships to various groups at various rates. The golf course tracks memberships, however, there is no formal reconciliation that verifies the number of members multiplied by the membership fee, plus/minus other identified variables, equals membership revenues recorded in GolfNow and the general ledger. These reconciliations provide additional assurance over membership revenues.
- The golf course hosts various tournaments during the year. The golf course tracks tournament participants, however, there is no formal reconciliation after each tournament that verifies the number of participants multiplied by the tournament fee, plus/minus other identified variables, equals tournament revenues recorded in GolfNow and the general ledger. These reconciliations provide additional assurance over tournament revenues.

### *Security*

- Per inquiry procedures, we identified an alleged small theft of money occurred at the golf course in July 2017 (fiscal year 2018). The alleged theft was of money being kept in a file cabinet. Money not yet deposited must be maintained in a secure location.
- Per inquiry procedures, as of February 2018, the security cameras at the golf course were not functioning.
- When possible, the golf course makes night deposits of that day's collections. However, night deposits are not made daily and there is no formal policy in regards to making night deposits (such as a minimum dollar amount). Night deposits can reduce the risks associated with having cash on site.
- Pro shop retail items do not have security tags on them that would set off an alarm if they were inappropriately removed from the pro shop. This would add an additional layer of security.

### *Inventory/Pro Shop*

- There is no formal reconciliation of inventory additions recorded in GolfNow to expenses recorded in the general ledger. This provides additional assurance over expenses and inventory and enhances the periodic reconciliations of physical inventory.
- There is no formal reconciliation of inventory reductions recorded in GolfNow to pro shop revenues recorded in the general ledger. This provides additional assurance over revenues and inventory and enhances the periodic reconciliations of physical inventory.

- We identified the following related to physical inventory counts and reconciliations:
  - A physical inventory count was conducted in December 2016, but not as of June 30, 2017. Physical inventory counts should, at a minimum, be performed on June 30 annually since it is the City's fiscal year-end date.
  - The December 2016 inventory identified an immaterial variance between GolfNow balances and the physical inventory. GolfNow balances were adjusted to match the physical inventory. Though the variance was immaterial to the City's financial statements, physical inventory variances should be investigated and documented prior to making any adjustments.
  - A member of the DPW was not present at the December 2016 physical inventory. Best practice is for someone independent of the golf course to either conduct or supervise physical inventory counts.

*Other*

- The golf course offers gift cards, members/players can earn credits (such as for winning a tournament) and the golf course also collects and remits sales taxes. These liability balances are tracked and recorded in GolfNow and the general ledger and the golf course and DPW perform informal reconciliations of the balances. However, formal reconciliations of these balances were not performed as of June 30, 2017 and variances existed between GolfNow and the general ledger. While the variances were immaterial to the City's audited financial statements, sound internal controls require liability balances be reconciled in full on a periodic basis (monthly preferred), including year-end.
- We identified the following related to formal, written policy and procedure manuals related to golf course operations:
  - The City maintains two (2) manuals with information about golf course operations. Some of the information in the manuals is outdated (for example, commissions) and/or inaccurate (for example, physical safeguarding of cash). In order to achieve maximum benefits from written policy and procedure manuals, one centralized document should be maintained that is consistently referred to by City personnel in performing their responsibilities.
  - Neither existing manual contains information (or does not contain adequate information) about the following aspects of golf course operations:
    - Formulating and approving annual rates for greens fees, carts, etc.
    - Purchases, and pricing of, pro shop inventory
    - Physical inventory and reconciliations
    - Memberships (different types, how to become a member, how members are tracked, etc.)
    - Review of outstanding encumbrances at year-end for cancellation
    - Financial reconciliations (revenues, inventory, gift certificates, etc.)

Recommendation

*Revenues*

We recommend the City analyze the cost/benefit of modifying the chart of accounts in GolfNow and/or the general ledger to allow for direct entry of golf revenues in the general ledger without the need for preparing an intermediate spreadsheet. In the meantime, we recommend daily revenue spreadsheets be signed and dated by both the preparer and reviewer.

We recommend the DPW, as an additional layer of assurance, perform documented verifications of user fee rates per GolfNow reports to user fee rates approved by the City.

We recommend the DPW perform documented reconciliations of revenues per the general ledger to bank deposits made by the golf course.

We recommend the DPW record revenues daily for the previous business day's activity.

We recommend lease and commission payments be received, recorded and reconciled in a manner that is compliant with the City's contract with the golf restaurant. For any fiscal year 2017 lease or commission payment not yet received and recorded, we recommend the City obtain and record such amounts.

We recommend the City analyze the cost/benefit of employing a full-time starter(s) and performing daily independent reconciliations of revenues received to the information maintained by the starter(s).

We recommend the City perform formal reconciliations of tournament and membership revenues to verify that the number of participants multiplied by user fee rates reconciles to revenues recorded in the general ledger.

### *Security*

We recommend the City implement policies and procedures to maximize the physical security and safeguarding of money not yet deposited, to include a cost/benefit analysis of either requiring night deposits or establishing a minimum dollar threshold for requiring night deposits.

We recommend the City ensure that security cameras are functioning and if not, take immediate necessary actions to fix them.

We recommend the City analyze the cost/benefit of placing security tags on pro shop inventory items.

### *Inventory/Pro Shop*

We recommend the City perform documented monthly reconciliations of inventory additions and reductions recorded in GolfNow to revenues and expenses recorded in the general ledger.

We recommend physical inventory counts be performed in both December (end of month) and also on June 30 annually. We recommend someone from DPW either conduct the counts and/or supervise the counts. At the end of each count, investigations of variances must be documented and resolved.

### *Other*

We recommend the City perform documented monthly reconciliations of liability accounts between GolfNow and the general ledger.

We recommend the City prepare an updated, comprehensive and centralized policy and procedure manual to be maintained and utilized by both the golf course and DPW.

### Management's Response

The City DPW&P intends to implement all the management letter recommendations in FY19 and produce an updated combined comprehensive centralized policy and procedure manual reflecting those recommendations. That manual will be maintained and utilized by both the golf course and DPWP administrative offices. It should be noted that revenues are now being signed and dated by a preparer and a reviewer. Night deposits are and continue to be routine at the Golf Course, and procedures are under review to increase the frequency of night deposits. Recommended cost/benefit studies will be performed during FY19 for the following: Golf Now account adjustments to allow direct entry of revenues, utilizing full time starters, and the implementation of security tags in the pro shop. Finally, the cost of security camera installations are currently under review by the Golf Course.

## School Federal Grants

### Comment

We identified the following related to federal grants administered by the School Department:

- Several school federal grants were audited as part of the City's "Single Audit". Our audit identified six (6) findings related to school federal grants. Please refer to the report entitled *GAO and OMB Reports* for details of the findings. The following is a summary of the findings:
  - For 3 grants, there were findings related to payroll documentation
  - For 2 grants, there were findings related to late filings of reports
  - For 1 grant, there was a finding related to the completeness of reports filed
- Consistent with past practice, in fiscal year 2017, the School Department recorded a significant amount of school federal grant payroll expenses through reclassification journal entries and/or "interdepartmental charges". While consistent with past practice, we observed that the volume of the reclassifications generally increased, and the reclassifications were generally not recorded as timely as previous years, particularly related to year-end entries.

The School Department should revisit its policies and procedures related to federal grant payroll to determine if improvements can be made to the process, with an emphasis on reducing the number of, and need for, reclassification entries and to improve the timeliness of such entries, especially year-end entries.

In addition, for many of the school federal grant payroll reclassifications, supporting documentation consisted largely of spreadsheets of data pulled from payroll reports and other reports. That is acceptable provided there is documentation (ideally, in a written policies and procedures manual) describing how the spreadsheet data was compiled such that an experienced accountant could re-create the journal entry. The supporting documentation did not contain such summaries of how the data was compiled.

- In regards to the SPED Early Childhood grant, we identified that during fiscal year 2017, revenues recorded in the general ledger was approximately \$275,000 and expenses were only approximately \$6,000. In fiscal year 2018, the School Department recorded a journal entry to reclassify and charge fiscal year 2017 expenses to the grant. While this instance is immaterial to the City's audited financial statements, matching revenues with expenses in the proper reporting period is an important element of financial reporting and federal grant compliance.
- We tested twenty (20) journal entries recorded to school federal grant payroll expense accounts and identified the following additional observations:
  - 7 of 20 entries reclassified expenses within the same grant, but to a different "grant year". While the School Department's internal controls identified the need to reclassify the expenses, this indicates the School Department should revisit its policies and procedures related to recording grant expenses to the proper grant year at the point of original entry. This is of particular importance when it comes to school federal grants, since "Period of Performance" is a specific federal compliance requirement that is annually tested to ensure grant expenses are recorded to the appropriate grant year.

- Most of the payroll reclassification entries we reviewed covered weeks or months of activity, however, 4 of 20 entries covered the entire school year period. Waiting until year-end to reclassify entire school years' worth of activity does not promote timely financial reporting and increases the risk of errors. In addition, in some instances within these 4 entries, employees' entire annual salaries were charged to grant programs. Employees whose salaries are 100% funded by federal grants should be signing semi-annual certifications as of 12/31 and 6/30. As such, at a minimum, employees who signed semi-annual certifications as of 12/31 could, in theory, have their salaries reclassified in January, which would enhance timely financial reporting and reduce the volume of year-end entries.
- None of the 20 entries were dated by the preparer. Including dates in journal entry sign offs enhances the audit trail and allows for an evaluation of the timeliness and efficiency of the associated transactions.
- 11 of 20 entries were not signed off by a reviewer. Best practice is to have all journal entries reviewed and signed off by supervisory personnel to provide additional assurance that the entries are appropriate. This is of particular importance when it comes to school federal grant payroll transactions, as many of the School Department's reclassification entries are complex, contain large balances, span multiple grant funds and are subjected to "Single Audit" compliance procedures and potential reported findings of deficiencies in the annual *GAO and OMB Reports*.

In addition, we noted that at least one of the entries we tested was a correction of a previous journal entry, which further supports the need for journal entries to be formally reviewed and signed off.

- 1 of 20 entries contained no description on the cover sheet, and 1 of 20 entries contained an inaccurate description on the cover sheet. Including accurate descriptions with journal entry support enhances the audit trail and assists in being able to analyze (and/or re-create) the entries.

### Recommendation

We recommend the School Department implement procedures to alleviate the findings reported in the fiscal year 2017 *GAO and OMB Reports*.

We recommend the School Department collaborate with the City Auditor's Office to revisit the School Department's procedures related to federal grant payroll to determine if improvements can be made to the process, with an emphasis on reducing the number of, and need for, reclassification entries and to improve the timeliness of such entries, especially year-end entries. This process should include a review of policies and procedures to ensure permanent payroll system adjustments are being communicated and made timely when applicable and appropriate.

We recommend that supporting documentation for all school federal grant payroll charges (including reclassification entries) be sufficient to allow an experienced accountant to re-create the journal entry. Ideally, this would entail making reference to a written policies and procedures manual that contains narrative descriptions that detail and describe how the supporting documentation was compiled, where the data comes from, etc. We recommend the School Department collaborate with the City Auditor's Office in implementing any new policies and procedures associated with payroll charges and reclassifications and the related supporting documentation.

We recommend the School Department implement and document periodic (monthly, quarterly, etc.) analytical procedures to its federal grant programs throughout the fiscal year in which grant revenues and expenses are reviewed for abnormalities that may be indicative of the need for accounting adjustments. For example, timely analytical procedures such as this to the SPED Early Childhood grant would have identified (timely) that minimal expenses had been charged to the grant as of June 30.

We recommend the School Department implement procedures to address the areas for improvement identified in our journal entry testing.

### Management's Response

The school department has worked consistently with the City Auditor's requirements for the process of journal entries over the last several years. The majority of grant funded staff are directly charged to the corresponding funding sources. The remaining employees requiring reclassification are processed on a semi-annual basis. As the previous audit response stated, the school department has proposed implementing a quarterly review process for grant reporting that verifies the required information, including maintaining the certification forms with the corresponding journal entries.

After recent discussion with the City Auditor regarding past practices, the school department will incorporate a memo accompanying required journal entries to explain any necessary reclassification for grant reporting. The City Auditor has also agreed to initiate the setup of several entitlement grants after the June budget approval from the school committee. This will be a change from waiting until the final grant award has been accepted to set up grant accounting in the accounting system. This new procedure will reduce the need to reclassify grant year expenditures. The City Auditor will also be distributing new journal entry forms providing additional information that has been noted such as improved space for comments and date ranges.

While the school department has the ability to charge employees directly to grant funds, the current payroll functions that are incorporated within the City's financial management system has some limitations. As discussed with City Auditor, due to some of these limitations and staff turnover in grant funded positions, there will always be a need to process journal entries due to the volume of expenditures that occur within the district.

## Health Insurance

### Comment

We identified the following related to the administration and accounting for health insurance activities:

- The City does not have a fully automated benefits management system. For example, the enrollment forms we reviewed as part of the audit were all manual forms completed by hand. There are many automated benefits management systems available that could potentially reduce paperwork and add other efficiency gains such as automating certain accounting functions.
- The City bills certain retirees and surviving spouses for their share of health insurance costs when pension benefits are not sufficient to cover the costs. We identified the following:
  - Amounts outstanding are not recorded in the general ledger as accounts receivable. While immaterial to the City's audited financial statements, best practice is to maintain a control account on the general ledger for all accounts receivable and to reconcile general ledger receivable balances to subsidiary ledgers.
  - As of June 30, 2017, approximately \$17,000 of amounts outstanding were greater than one (1) year old. Given the aging of these receivables, some of the balances are and/or may be uncollectable and should be written-off. In addition, collection procedures should be revisited to determine if the City is optimizing all efforts to collect outstanding amounts.
- We tested nine (9) transactions recorded to General Fund health insurance expenses and identified the following:
  - Several of the transactions were "interdepartmental charges" to record health insurance expenses related to the School Department. For the first 9 months of the fiscal year, the transactions were recorded on a quarterly basis. Starting with April 2017, the transactions were recorded on a monthly basis. Recording these transactions on a monthly basis is the preferred approach in that it promotes and enhances timely interim financial reporting. With that said, we noted that the April 2017 transaction was recorded over 60 days after month end. Best practice is to record monthly-related transactions by the end of the following month at the latest.
  - For many of the transactions, supporting documentation consisted largely of spreadsheets of data pulled from invoices and payroll reports. However, the invoices and payroll reports were not included in the supporting documentation. That is acceptable provided there is documentation describing how the spreadsheet data was compiled such that an experienced accountant could re-create the journal entry. The supporting documentation did not contain such summaries of how the data was compiled.
  - One (1) transaction was a reclassification of expenses from the general fund to various grant funds from which health insurance benefits were paid from. The transaction covered the entire fiscal year. Best practice is to record grant reclassification adjustments such as this on a more frequent basis, monthly if possible.

- We tested six (6) retirees who were Medicare-eligible and reviewed documentation associated with their enrollment into a Medicare plan and identified the following:
  - For 2 of the 6 retirees tested, there were slight discrepancies between the retirement date per the City's automated records and the retirement date written on the Medicare enrollment form. While noted as slight discrepancies, it is important to maintain accurate records of retirement dates since this data is used by actuaries in forecasting the City's pension and OPEB benefit liabilities.
  - 1 of 6 enrollment forms was not signed by the retiree. It is important to ensure enrollment forms are signed by the retiree to document their authorization.
  - We identified discrepancies in the timing of executing the Medicare enrollment forms. As a frame of reference, in one instance, a retiree's retirement date was 3/8/17 and the enrollment form was dated 3/10/17. However, in other instances, the lag times from retirement dates to the dates on the enrollments forms were longer, including 2 months, 4 months and 9 months. It is in the City's best interests to transfer retirees into Medicare plans as quickly as possible upon eligibility in order to maximize cost savings.
- We tested ten (10) new hires and reviewed documentation associated with their enrollment into a health insurance plan. We identified discrepancies in the timing of executing the enrollment forms. 4 of 10 were executed on or around the first day of employment. For the other 6, the forms were executed between 9 and 28 days after the first day of employment. Best practice would be to have all enrollment forms executed by the first day of employment to promote timely administration, reduce the risk of payroll deduction errors, etc.

### Recommendation

We recommend the City analyze the costs/benefits of implementing a fully automated benefits management system and/or improving the automation of certain processes associated with health insurance benefits.

We recommend the City implement procedures to record an accounts receivable balance in the general ledger for outstanding amounts owed from employees and retirees billed for health (and other) insurance.

We recommend the City analyze old accounts receivable for health insurance billing and determine if any of the balance is uncollectable and should be written off. If as part of this process, the City intends to make adjustments and/or write-offs of accounts receivable balances, we recommend the City consult with their Law Department and the Massachusetts Department of Revenue about any applicable rules and regulations.

We recommend that for any health insurance expenses that are recorded through routine reclassification entries, the City make efforts to record such entries with more frequency, monthly if possible.

We recommend that supporting documentation for all health insurance expenses (including reclassification entries) be sufficient to allow an experienced accountant to re-create the journal entry. This can be accomplished by including copies of all relevant reports (payroll, general ledger, etc.) with the journal entry and/or including narrative descriptions that detail and describe how the supporting documentation was compiled, where the data comes from, etc.

We recommend the City review its procedures for recording retirement dates in their accounting systems to ensure that retirement dates are being consistently and accurately captured in census data that is submitted to actuarial firms.

We recommend the City implement procedures to ensure that all Medicare (and other) enrollment forms are signed by the employee/retiree.

We recommend the City review its procedures related to the timeliness of Medicare enrollment to ensure that the processes in place promote and enhance enrolling Medicare eligible retirees as quickly as possible. Similar reviews should be done as it relates to onboarding new hires into the City's health insurance plans.

#### Management's Response

Due to the fact that fringe benefits has historically been a substantial fixed cost on a budgetary and long term liability basis, the City developed and maintains a health insurance (benefit module) software module which is integrated with the City's payroll and billing systems. This module, which was first developed in the early 1990s and has been modified over time to accommodate changes in health coverage offered to City employees and retirees, is the back bone to all financial transactions related to health insurance and acts as a check and balance to the information independently maintained by the respective health insurance carriers which the City offers coverage to its employees and retirees. In that there are two independent yet concurrent systems, the City utilizes multi copy, paper applications in enrolling employees and retirees, as well as beneficiaries, into respective health care plans.

With regards to the recommendation to analyze the cost benefits of implementing a fully automated benefits management system, or improving the automation of certain processes associated with health benefits, the Department of Administration and Finance, the Human Resources Department and the Technical Services department shall conduct a cost benefit analysis and a SWOT analysis on the health insurance processes.

Like any system, the health insurance module is only as good as the information contained in the system. Being that the application serves as not only notification of coverage by the City, but additionally as authorization for the City to withhold employee/retiree premium contributions for the respective coverage, the City will ensure that all health insurance applications are properly executed by the employee/retiree and the respective data entry of said information into the health insurance module is accurate.

As it relates to the recognition of employee/retiree premium contributions which are billed, and any subsequent write offs, although the receivable amounts are not material in terms of amount, as noted above this shall be one of the first SWOT analyses conducted in terms of existing processes.

Finally, since the fourth quarter of the fiscal year 2017, the City processed "reclassifications" (chargebacks to the Worcester Public Schools and Enterprise Funds) on a monthly basis.

**Police Detail Revenues and Receivables**

Comment

We identified the following related to police detail revenues and accounts receivable:

- The following is a five-year history of accounts receivable, fund balance, revenue and accounts receivable/revenue ratios of the police detail fund:

<u>Fiscal Year</u>	<u>Accounts Receivable (A/R)</u>	<u>Fund Balance</u>	<u>Revenue</u>	<u>A/R as a % of Revenue</u>
2013	\$ 887,911	\$ -	\$ 7,907,777	11.2%
2014	\$ 882,723	\$ 65,431	\$ 8,329,995	10.6%
2015	\$ 1,086,198	\$ 28,104	\$ 8,604,089	12.6%
2016	\$ 937,735	\$ -	\$ 9,443,988	9.9%
2017	\$ 1,139,903	\$ (202,094)	\$ 8,776,547	13.0%

The following are observations from the data above:

- Of the \$1,139,903 accounts receivable balance as of June 30, 2017, approximately \$300,000 is greater than one (1) year old. Going further, approximately \$270,000 is greater than three (3) years old and approximately \$170,000 is greater than five (5) years old.

Given the aging of accounts receivable, some of the balances are and/or may be uncollectable and should be written-off. When or if accounts receivable are written-off, the City will need to replenish the police detail fund with other available funds (e.g., free cash).

- The police detail fund balance as of June 30, 2017 is a deficit of approximately \$202,000. In previous years, fund balance was either zero or a small surplus. Given this anomaly, and given the June 30, 2017 variance in police details accounts receivable (see further in this comment), the City should perform a reconciliation of fiscal year 2017 police detail expenses and police detail revenues and determine if all expenses were captured and recorded in the general ledger and equally offset by revenues from vendor billings. Following this analysis, the City should make any required accounting and/or billing adjustments as a result of the analysis. Once this is completed, similar reconciliations should be performed for fiscal year 2018 and moving forward.
- The accounts receivable as a percentage of revenue ratios indicates a noticeable increase from fiscal year 2016 to 2017, which could indicate that collection procedures need to be revisited to determine if the City is optimizing all efforts to collect outstanding police details.

- We reviewed a sample of four (4) monthly reconciliations of police details accounts receivable and identified the following:
  - Each reconciliation contains reconciling items that are greater than one month old and are not “timing differences” that resolve themselves the next month or in subsequent periods. As such, these types of reconciling items most likely represent accounting adjustments to be made to the general ledger and/or subsidiary receivable ledgers. Reconciling items such as this should either be resolved prior to completing the monthly reconciliation or the very next month at the latest.
  - The March 2017 reconciliation was not completed until July. Best practice is to complete all monthly accounts receivable reconciliations by the end of the following month to promote and enhance timely financial reporting.
  - The June 30, 2017 reconciliation reports a variance between the general ledger and subsidiary ledgers. While the variance is immaterial to the City’s audited financial statements, sound internal controls require accounts receivable balances be reconciled in full on a month-to-month basis, including year-end. In addition, the variance could have an impact on the fund balance reconciliation referred to previously.
- We tested 10 transactions recorded to the police detail accounts receivable account and identified three (3) instances of commitments being double-posted and then reversed. While the City’s internal controls detected the double-postings, this indicates the City should revisit its policies and procedures related to recording police detail commitments in order to prevent such instances in the future.

### Recommendation

We recommend the City analyze old police details accounts receivable and determine if any of the balance is uncollectable and should be written off. If as part of this process, the City intends to make adjustments and/or write-offs of accounts receivable balances, we recommend the City consult with their Law Department and the Massachusetts Department of Revenue about any applicable rules and regulations.

We recommend the City perform a reconciliation of fiscal year 2017 police detail expenses and police detail revenues and determine if all expenses were captured and recorded in the general ledger and equally offset by revenues from vendor billings. Following this analysis, the City should make any required accounting and/or billing adjustments that are discovered, if any. Once this is completed, similar reconciliations should be performed for fiscal year 2018 and moving forward.

We recommend the City resolve non-timing reconciling items in monthly police detail accounts receivable reconciliations either that month or the following month.

We recommend the City complete all monthly police detail accounts receivable reconciliations by the end of the following month.

We recommend the City investigate and resolve variances between police details accounts receivable balances of the general ledger as compared to subsidiary ledgers on a month-to-month basis.

We recommend the City review its policies and procedures related to recording police detail commitments in order to prevent double-postings and/or other irregularities.

### Management's Response

The City has a long standing accounts receivable allowance policy for netting down Police Auxiliary receivables for financial reporting purposes. Historically the City has been hesitant to write off these receivables because due to other collection actions, suits currently pending in District and Superior Court as well as the ability to withhold permits (REAP ordinance) on any purchaser of Police Auxiliary Services. Upon consultation with the City's Law Department, and need be the Department of Revenue, the City shall write off any and all receivables, or unpaid balances, in which there is no likelihood of collection.

With regards to reconciliations, the City will undertake monthly reconciliations of the Police Auxiliary receivable and make recommend timely corresponding journal entries to the City's general ledger.

## 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 deficiencies we identified:

- There was no external risk assessment performed during the period. This presents the risk that an independent perspective on the risk universe for IT or enterprise-wide scope will be absent which precludes the possibility of corroboration with internal results and the opportunity to benchmark against leading practice and peers.

This comment was also included in the prior year Management Letter.

- The minimum password length for domain users does not meet leading practices. Current policy requires a minimum length of 8 characters. This presents the risk of unauthorized access to the trusted internal network and any significant systems and data.
- Both the Pentamation and Vision Appraisal systems do not have periodic access reviews conducted to verify that privileges assigned to active users are in accordance with need to know, least privilege and separation of duties. This presents the risk of active, orphaned accounts/dead objects being present in application layer user listings subsequent to network layer access removal resulting in an additional risk of potentially unauthorized access to financially significant systems and data.

This comment was also included in the prior year Management Letter.

- The application administrator for Vision Appraisal systems is the City Assessor. This represents a weakness in segregation of duties. This presents the risk of unauthorized modifications to financially significant systems and data.

This comment was also included in the prior year Management Letter.

In addition, authentication controls for the Vision Appraisal application are inadequate in the areas identified below. This presents the risk of unauthorized access to financially significant systems and data.

- Minimum password length of 4 to 8 characters
- No password change requirements
- No password history
- No account lockout
- For in-house applications, the technical support staff have access to migrate changes through the entire process. Specifically, while a testing step and request via a Help Desk ticket are required for major updates or upgrades to in-house applications, technical support staff may be able to push unauthorized changes to production and bypass the process altogether based on access rights granted to them. This presents the risk of unauthorized modifications to financially significant systems and data.

This comment was also included in the prior year Management Letter.

- The current Data Confidentiality policy does not explicitly state the different types of public data that may be handled. Additionally, instructions for securing the different types of data specified (confidential vs. sensitive) is not clear. This represents the risk that data is not classified and secured properly.
- While the City had an External Vulnerability Assessment performed in 2017, it did not include email phishing. This test measures users' awareness of security and provides a proof of concept for how vulnerabilities are exploited during an email phish.

### Recommendation

We recommend the City analyze the cost/benefit of resolving the deficiencies identified in our IT evaluation.

### Management's Response

Although the City conducts penetration testing, the City has not conducted an external risk assessment. In fiscal year 2019, the City shall conduct a cost benefit analysis of an external risk assessment.

With regards to strengthening password lengths and complexities, for City owned and developed modules, the City shall review password protocols and strengthen where required. For third party applications, the City will attempt to have the respective software developers (i.e. Vision) change their respective password protocols. Additionally, the City shall change administrative privileges for the Vision system from the City Assessor to the Technical Services Department.

In fiscal year 2016, the City implemented an employee transfer/termination protocol, which changes user profiles and access to modules utilized by the City. The City will review this protocol, and if deemed necessary strengthen this procedure.

As it relates to existing procedures for migrating changes to the production environment and the current Data Confidentiality policy, both are currently under review by the Technical Services Department.

Finally, since January 2018, email phishing notifications have been a component of the City's Cyber Security Awareness Program.

## **Bank Account Reconciliations**

### Comment

We identified the following related to bank account reconciliations:

- Many of the City's monthly bank reconciliations contain reconciling items that are several months old and are not "timing differences" that resolve themselves the next month or in subsequent periods (such as the clearing of an outstanding check). As such, these types of reconciling items either represent accounting adjustments to be made to the City's records and/or adjustments that need to be communicated to the City's banking institutions. Reconciling items such as this should either be resolved prior to completing the monthly reconciliation or the very next month at the latest.
- For fiscal year 2017, the City voted to transfer money to its separate fund/account being maintained to help fund future OPEB benefits. The transfers were recorded in the general ledger, however, the related bank transfers into the OPEB bank account were not executed in full. It is important to ensure that for any City-voted transfer of funds, all related bank account transfers also be executed. In this example, the City's OPEB bank account was understated during fiscal year 2017, which had an impact on the amount of investment earnings generated by the account during fiscal year 2017.
- As of June 30, 2017, the City was still maintaining a cashbook balance for an old Bank of America account that had been previously closed. In order to reconcile general ledger cash balances to Treasurer/Collector cashbook balances, the cashbook balance in the closed bank account needs to be addressed and resolved.

### Recommendation

We recommend the City resolve non-timing reconciling items in monthly bank reconciliations either that month or the following month.

We recommend the City analyze its OPEB bank account and execute any outstanding transfers of funds.

We recommend the City address and resolve the balance in the closed account identified above, as well as investigate and resolve any other closed bank accounts for which a cashbook balance is still being maintained.

### Management's Response

The City has had a long standing policy that non-timing reconciling items are to be cleared 45 days from the date of the daily reconciliation or the receipt of the respective bank statement. This standard was not achieved in fiscal year 2017. With the full staffing level, and proper training of recently hired personnel, the City believes this standard can be achieved.

As it relates to the OPEB Trust transaction and the closure of the legacy cashbook, both items shall be addressed expeditiously.

## Accounts Receivable Reconciliations

### Comment

We identified the following related to accounts receivable reconciliations:

- At June 30, 2017, several accounts receivable reconciliations contain variances between general ledger and Collector balances. While the variances were immaterial to the City's audited financial statements, and many are small variances, sound internal controls require accounts receivable balances be reconciled in full on a month-to-month basis, including year-end.
- Some accounts receivable reconciliations contain reconciling items that are several months (or in some cases, years) old and are not "timing differences" that resolve themselves the next month or in subsequent periods. As such, these types of reconciling items most likely represent accounting adjustments to be made to the general ledger and/or subsidiary receivable ledgers. Reconciling items such as this should either be resolved prior to completing the monthly reconciliation or the very next month at the latest.
- Many accounts receivable reconciliations for June 30, 2017 were completed in September 2017. Best practice is to complete all monthly accounts receivable reconciliations by the end of the following month to promote and enhance timely financial reporting.

### Recommendation

We recommend the City investigate and resolve variances between accounts receivable balances of the general ledger and Collector on a month-to-month basis. If as part of this process, the City intends to make adjustments and/or write-offs of accounts receivable balances, we recommend the City consult with their Law Department and the Massachusetts Department of Revenue about any applicable rules and regulations.

We recommend the City resolve non-timing reconciling items in monthly accounts receivable reconciliations either that month or the following month.

We recommend the City complete all monthly accounts receivable reconciliations by the end of the following month.

### Management's Response

As noted with the Management Response to Bank Account Reconciliations, the City had a 45 day policy to clear non-timing reconciling items. As was the case with bank reconciliations, this standard was not achieved. With the full staffing level, and proper training of recently hired personnel, the City believes this standard can be achieved.

## **Escrow Liabilities/Other Liabilities**

### Comment

We identified the following related to the City's escrow liabilities (i.e., bids, deposits, etc.) and other miscellaneous liabilities:

- There are several escrow liability balances that have remained unchanged for many years. While the balances are immaterial to the City's audited financial statements, there is a likelihood that some (or all) of the balances are no longer applicable and do not represent obligations of the City.
- The June 30, 2017 reconciliation of the Insurance Escrow liability was completed in October 2017. In addition, it contained reconciling items that are several years old and are not "timing differences" that resolve themselves the next month or in subsequent periods. As such, these types of reconciling items most likely represent accounting adjustments to be made to the general ledger and/or subsidiary escrow liability ledger. Reconciling items such as this should either be resolved prior to completing the monthly reconciliation or the very next month at the latest.
- The City maintains many miscellaneous liability accounts other than escrow liabilities. Similarly, all such accounts should be reconciled monthly and documented determinations made of the validity of the liabilities, their timing, etc. If any stale liabilities exist, they should be documented and adjusted accordingly.

### Recommendation

We recommend the City investigate all escrow liability balances that remained unchanged during all of fiscal year 2017 and determine which balances, if any, represent current, valid obligations of the City. For such liabilities, the City should either pay the liability if owed currently or keep the balance(s) in the general ledger if not owed currently. For liabilities not owed currently, the City should ensure that the nature, purpose and due date(s) of the liabilities are documented for future reference.

We recommend the City resolve non-timing reconciling items in monthly escrow liability reconciliations either that month or the following month.

We recommend the City complete all monthly escrow liability reconciliations by the end of the following month.

We recommend the City perform a review of all other/miscellaneous liability accounts to ensure all such accounts are being reconciled consistently on a monthly basis, to include documented determinations of the liabilities' validity, timing, etc.

### Management's Response

Until directed to release an escrow by the department having jurisdiction for said escrow or liability account the City shall hold said proceeds. The City, A&F and the respective department having jurisdiction over said escrow/liability shall undertake a review of each and every escrow to ensure the purpose is still valid.

As noted with the Management Response to Bank Account Reconciliations and the Accounts Receivable Reconciliations, the City has a 45 day policy to clear non-timing reconciling items. As was the case with bank and accounts receivable reconciliations, this standard was not achieved. With the full staffing level, and proper training of recently hired personnel, the City believes this standard can be achieved.

## **Special Revenue Funds**

### Comment

The City maintains a large volume of special revenue funds for activities such as gifts and grants. As of June 30, 2017, the City had many special revenue funds with balances for which there was no revenue or expense activity in fiscal year 2017.

Some of these funds may be “stale” and no longer represent current activities of the City. As such, the City should analyze these funds and determine if they are still active. For any funds that are no longer active, the City needs to determine how to account for the remaining balances, such as accounting adjustments, returning grant funds to granting agencies, etc.

### Recommendation

We recommend the City investigate and analyze special revenue funds for which there was no revenue or expense activity in fiscal year 2017 (and no activity thus far in fiscal year 2018) to determine the status of the funds and to take any necessary actions.

### Management’s Response

Stale Special Revenue funds have been an ongoing review undertaken by the City for approximately two years. Resolution to which shall be return of funds to the granting agency, the general fund or the capital funds upon determination of the root cause of the nature of the stale funds.

## Capital Projects Funds

### Comment

We identified the following related to the City's capital projects funds:

- As of June 30, 2017, the City had several capital project funds with balances for which there was no revenue or expense activity in fiscal year 2017. Most, if not all, of these funds may be "stale" and no longer represent current activities of the City. As such, the City should analyze these funds and determine if they are still active. For any funds that are no longer active, the City needs to determine how to account for the remaining balances, which could include repurposing unspent bond proceeds (if applicable).
- As of June 30, 2017, the City had several capital project funds with balances for which it appears that revenues (such as state grants) were recorded to the fund, but the related expenses were recorded to a different fund or account. As such, the City should analyze these funds and determine how to account for the remaining balances, which could include making accounting adjustments to match revenues and expenses (if applicable).

### Recommendation

We recommend the City investigate and analyze capital projects funds for which there was no revenue or expense activity in fiscal year 2017 (and no activity thus far in fiscal year 2018) to determine the status of the funds and to take any necessary actions. There are various state and federal rules and regulations related to unspent bond proceeds and unspent grant proceeds. As such, we recommend the City consult with their Law Department, the Massachusetts Department of Revenue and the IRS about any applicable rules and regulations.

We recommend the City investigate and analyze capital projects funds for which there are remaining balances as a result of revenues not matching expenses. The City should determine the status of the funds and take any necessary actions which could include, but not be limited to, accounting adjustments and/or returning unspent grant funds to granting agencies.

### Management's Response

Stale Capital Project funds have been an ongoing review undertaken by the City for approximately two years. Resolution to which shall be a City Council transfer consistent with Chapter 44 of the Massachusetts General Laws.

## **Cable Television PEG Access Fund**

### Comment

The City receives cable franchise fees collected from customers by cable operators in connection with the franchise and in support of public, educational and government (PEG) programming. The Massachusetts Department of Revenue (DOR) has issued formal, written guidelines related to the accounting treatment of PEG access funds.

Currently, the City accounts for PEG access funds as a revolving fund. According to the most recent guidelines issued by the DOR (Bulletin 2018-2), the City can choose to account for the PEG access fund as an enterprise fund or as a receipts reserved for appropriation fund. Previous guidance from the DOR (Informational Guideline Release [IGR] No, 16-102) summarizes the action items required for either accounting approach.

The DOR has given communities until the close of fiscal year 2019 to take all necessary actions to be in compliance with Bulletin 2018-2/IGR 16-102. The DOR does not intend to extend this deadline.

If the City does not change its current accounting approach, any unspent PEG access funds will be closed to the General Fund as part of the June 30, 2019 free cash certification.

### Recommendation

We recommend the City be in full compliance with the DOR's guidance related to PEG access funds by June 30, 2019.

### Management's Response

As noted, the Department of Revenue (D.O.R.) has promulgated new guidelines for the accounting of Public Education and Government Access funds. On a budgetary basis the change has no effect. As of June 30, 2019, the D.O.R. deadline, the City shall reclassify the proceeds from a Revolving Account to a Reserved Receipt Account.

## Chapter 90

### Comment

We identified the following related to the City's Chapter 90 funds:

- During fiscal year 2017, the City recorded Chapter 90 reimbursement revenues to fund that is separate from where the related expenses were recorded. Since the Chapter 90 program is a reimbursement grant, revenues and expenses should be recorded to the same fund to facilitate the reconciliation of Chapter 90 activities (i.e. to prove revenues equal expenses). If the City's accounting procedures require journal entries to reclassify expenses from their original point of entry to the fund where Chapter 90 revenues are recorded, that is an acceptable approach.
- The City receives an annual approved "allotment" of Chapter 90 funds from the State for various street and infrastructure projects. Currently, the City does not account for each annual allotment in separate funds each year/allotment. Doing so would facilitate reconciliations of revenue and expense activity to approved project budgets and would add additional assurance that the City received its entire allotment of reimbursements from year to year.
- The City does not formally perform periodic reconciliations or analyses of approved project budget amounts to their related actual expenditures as projects are ongoing. Such reconciliations or analyses provide assurance that the City is appropriately accounting for each project, which provides additional assurance that the City will receive its entire allotment of reimbursements from year to year. Such reconciliations or analyses would also help to identify instances in which reimbursements were requested for projects that were not on the approved list.

### Recommendation

We recommend the City implement procedures to record Chapter 90 revenues and expenses to the same funds/accounts.

We recommend the City use new, separate funds each year to account for the annual Chapter 90 allotments distinctly.

We recommend the City perform periodic (monthly, quarterly, etc.) reconciliations of approved Chapter 90 project budgets to actual activity as projects are ongoing.

### Management's Response

DPWP began transitioning to recording expenses and reimbursements to the same funds/accounts in FY18 and will continue to do so in FY19. In addition, we plan to establish sub organizations for each annual Chapter 90 allocation so that the funds may be tracked separately. DPWP will implement quarterly reconciliations of activity in these funds/accounts.

## **Automated Parking Pay Stations**

### Comment

As also reported in the prior year Management Letter, some features of the City's automated parking pay stations (such as "pay by cell" and foreign languages) have yet to be implemented. Implementation of these features could potentially enhance the value provided by the pay stations.

### Recommendation

We recommend the City evaluate the cost/benefit of implementing additional features of the pay stations.

### Management's Response

In FY19, DPWP will continue to review the costs and benefits of implementing additional pay station features including pay-by-phone.

## **Withholding Liabilities**

### Comment

In the prior year Management Letter, we reported there were accumulated variances in payroll withholding liability accounts dating back several years. During fiscal year 2017, the City resolved a majority of the variances. However, as of June 30, 2017, two (2) withholding account reconciliations still contain variances. While the variances are not material to the City's audited financial statements, they should be reconciled and adjusted accordingly in the general ledger.

### Recommendation

We recommend the City reconcile the variances in the 2 payroll withholding accounts and adjust the general ledger accordingly (if necessary). Once these variances are reconciled and adjusted, we recommend the City continue with its practice of reconciling all payroll withholding liability accounts on a monthly basis.

### Management's Response

As noted, the majority of the liability accounts have been reconciled and adjusted. The two last withholding accounts shall be reconciled by 6/30/18 and correcting entries made, if applicable.