

CITY OF WORCESTER, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2015



CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAAconnect.com

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, 2015 (except for the Worcester Retirement System, which is as of and for the year ended December 31, 2014), 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 10, 2015, on the financial statements of the City.

We will review the status of these comments during our next audit engagement. We have already discussed 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 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 is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, MA
April 13, 2016

CITY OF WORCESTER, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2015

TABLE OF CONTENTS

	Page
Comments and Recommendations.....	1
Off-Street Parking.....	1
Trust Funds	4
Capital Projects	6
Information Technology	8
Warrant Bank Account Reconciliation.....	9
Withholding Liabilities	10

Comments and Recommendations

Off-Street Parking

Comment

We evaluated certain internal controls surrounding the City's off-street parking operations and identified the following:

- One of the specific areas we evaluated related to new automated parking pay stations implemented by the City in September 2014. Our evaluation of pay stations identified the following:
 - Per inquiries, it is our understanding that some features of the 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.
 - The City maintains a procedure manual for collections of parking meters. We identified the following as it relates to the portions of the manual pertaining to pay stations:
 - The manual was completed in May 2015, several months after the pay stations were implemented. Best practice is to document policies and procedures prior to the implementation of new technologies or systems related to financial transactions.
 - While the manual provides an adequate overall summary of some of the pay station collection procedures, additional details would enhance the manual. Some examples include:
 - The manual references various reports generated from the pay stations during each collection. The manual should detail and describe the reports generated and how they are used in the process of collecting, depositing, recording and reconciling pay station receipts.
 - The manual contains a brief section on pay station refunds. The manual should provide more detail related to processing refunds.
 - Per inquiries, we gained an understanding of the City's procedures to reconcile pay station deposits to reports generated from the pay stations and reports provided by the bank (for example, credit card transactions). The manual should provide more details on all reconciliation procedures performed.
 - The City employee responsible for collecting funds from the pay stations (pay station collector) is not bonded. Employee bonding insurance protects the City against theft and reduces risk of loss.
 - When a pay station is full and needs to be emptied and collected, an automated notification is sent only to the pay station collector. By only having notifications sent to the pay station collector, the City does not have the proper oversight to ensure that pay stations are being emptied, collected and deposited each time they become full. If notifications are sent to another employee(s) other than the pay station collector, independent reconciliation procedures can be performed by that employee(s) showing that pay stations were emptied, collected and deposited each time they became full.

- For one (1) of three (3) pay station revenue transactions we tested, the deposit was made more than two weeks after the collection of receipts. The timing of this deposit is inconsistent with the City's procedure manual, which states that pay station collections are to be deposited twice a week.
- The City contracts with a third-party service provider (LAZ Parking, or "LAZ") to manage its public parking garages and other off-street parking activities. LAZ is responsible for billing and collection related to parking garage customers that pay on account.

In our fiscal year 2012 Management Letter, we identified several significant, old outstanding amounts owed to the City from parking garage customers in our review of third-party accounts receivable reports (which were maintained by Republic Parking System at the time). Our review of LAZ's June 30, 2015 accounts receivable report shows that the same condition still exists.

These old accounts receivable are considered 100% uncollectible for financial reporting purposes and are therefore not material to the City's audited financial statements. This comment is being reported to the City for informative purposes.

- The City's contract with LAZ was dated in June 2013. The contract stated that LAZ would provide the City with a Service Organization Control (SOC) report within 90 days of the execution of the contract. Per inquiries, LAZ has not yet had a SOC audit performed to this date. SOC reports from third-party service providers such as LAZ provide the City with valuable information related to the effectiveness of the service providers' internal controls.
- We selected a sample of off-street parking revenue transactions and identified the following:
 - One (1) revenue transmittal form did not contain the date it was prepared and one (1) transmittal form did not contain the date it was reviewed. A section for dates is included in the transmittal forms to provide an audit trail and evidence of the timeliness of revenue transaction processing.
 - For two (2) out of ten (10) revenue transactions selected from the general ledger for testing, the posting to the general ledger was over one month after the initial collection date of the underlying deposits. This is a deficiency in the timeliness of financial reporting of revenues.

Recommendation

We recommend the following:

- Evaluate the cost/benefit of implementing additional features of the pay stations
- Develop and implement policies and procedures manuals prior to implementation of new technologies or systems related to financial transactions
- Implement improvements to the existing procedure manual for collections of parking meters
- Obtain and maintain employee bonding insurance for the pay station collector(s)
- Implement procedures to have notifications of pay stations becoming full sent to another employee(s) other than the pay station collector. In addition, implement procedures to perform and document reconciliations showing that pay stations were emptied and collected each time they became full.

- Strengthen procedures to deposit parking meter/pay station collections twice a week in accordance with the City's procedure manual
- Obtain, review and evaluate a SOC report from LAZ
- Strengthen procedures to have all revenue transmittal forms be dated by preparers and reviewers
- Strengthen procedures to improve the timeliness of recording revenues to the general ledger from the initial date of collection

Management's Response

The City implemented pay stations at selected lots in its off street parking inventory. With the initial implementation, the City opted to offer the pay stations basic core payment options until the operations were incorporated into the City's Intergraded Financial Management System (IFMS). Upon implementation, procedures for collections were developed to replicate the collection process of parking meter collections.

During the course of the fiscal year, the procedures were proven to be deficient and modified. Realizing the importance of procedures, the City continues to modify and properly document the Off-Street Parking procedures. Enhancements shall include bonding of employee collecting parking receipts (or the possibility of outsourcing collections to a bonded third party), additional supervisory review (inclusive of system notification to supervisory staff) and a more frequent collection cycle.

Trust Funds

Comment

We evaluated certain internal controls surrounding the City's expendable trust funds and identified the following:

- Before amounts can be expended from trust funds, an appropriation request must be initiated, reviewed and approved. We tested ten (10) fiscal year 2015 trust fund appropriations and identified the following:
 - Five (5) appropriation requests were not dated to indicate the date of approval by the City's Trust Fund Commission. Dating the approvals provides an audit trail to verify the approvals were made before expenses were incurred.
 - One (1) appropriation request was not signed and dated by the department head. Such approvals provide additional assurance that the appropriation request has been sufficiently reviewed by the appropriate parties.
 - In one (1) instance, a memo to initiate an appropriation request was dated March 31. The appropriation was not recorded in the City's general ledger until May 28. Significant lag times from initiation to recording on the general ledger creates the risk of expenses being incurred prior to the appropriation approval.
 - In two (2) inter-related instances related to Library trust funds, the appropriations approved and recorded in the general ledger were for different amounts than what was voted by the Library's Finance Committee. While it should be noted that the variances were off-setting and for amounts immaterial to the audit (\$5,000), the balances in the respective trust funds were misstated in the general ledger as a result.
- We tested ten (10) fiscal year 2015 trust fund expenditures and identified that in three (3) instances, the purchase orders were dated subsequent to the invoice date. Purchase orders should be executed prior to incurring costs.
- As of June 30, 2015, there was approximately \$34,000 of unspent trust fund appropriations that had been unspent for at least one (1) year. If unspent appropriations are no longer needed, the unspent amounts should be transferred back to the trust fund investment accounts.

Recommendation

We recommend the following:

- Strengthen procedures to ensure all trust fund appropriation approvals are dated
- Strengthen procedures to ensure all trust fund appropriation approvals are signed and dated by department heads
- Strengthen procedures to reduce the lag times between the initiation of appropriation requests, the approvals and the recording in the general ledger
- Strengthen procedures to ensure that trust fund appropriations are consistent with underlying authorizations (i.e., committee votes, etc.)

- Strengthen procedures to execute purchase orders prior to incurring costs
- Periodically review unspent appropriations to determine if they are no longer needed and if so, transfer such funds back to the respective investment accounts

Management's Response

The City shall ensure that trust fund appropriation requests are properly authorized and dated by the appropriate department heads and draws from the investment account are recorded timely on the City's general ledger. Additionally, the City will independently ensure that expenditures of trusts are consistent with the underlying purposes of said trust through a purchase order review. Finally, the City shall return all unspent appropriations currently accounted for on the City's general ledger to the investment account to maximize the return of said fund.

Capital Projects

Comment

We evaluated certain internal controls surrounding a sample of capital projects funds and identified the following:

- For one (1) project that was funded by both debt and reimbursement grants:
 - One fund/account was utilized in the general ledger to account for all financial transactions of the project. For projects that include both debt and grant funding, utilizing separate funds/accounts for the different financing sources may assist in analyzing and reconciling the projects' activity.
 - The project was intended to be 20% financed by debt and 80% financed by grant reimbursements. However, due to lack of timely grant reimbursement requests, the City had to issue more short-term financing than expected in order to maintain cash flow for the project.
 - In converting short-term debt financing to long-term debt financing, the City issued more long-term financing than was necessary. Some of the grant reimbursements received should have been used to pay off a portion of the short-term financing as opposed to converting it to long-term financing.
- One (1) instance in which the insurance documentation related to a contract did not include evidence of all required insurance coverage identified in the contract
- Vendors entering into contracts with the City must affirm their policies regarding Criminal Offender Record Information (CORI) information is consistent with the City's standards. A vendor with a CORI policy that does not conform to City standards must be granted a waiver by the City. We identified one (1) instance in which there was no documentation of a required waiver.
- Two (2) instances in which a purchase order for a contract change order was dated almost two months after the change order was executed. This is a deficiency in the timeliness of executing purchase orders.

Recommendation

We recommend the following:

- For capital projects funded by both debt and reimbursement grants:
 - Consider utilizing separate funds/accounts for the different financing sources
 - Strengthen procedures to request grant reimbursements timely in order to maintain cash flow
 - Strengthen procedures to identify instances in which short-term financing can be paid off with grant reimbursements received prior to converting it to long-term financing
- Strengthen procedures to obtain insurance documentation for all required insurance coverage identified in contracts

- Strengthen procedures to grant and document waivers to vendors with a CORI policy that does not conform to City standards, prior to executing a contract
- Strengthen procedures to improve the timeliness of executing purchase orders after change orders are executed

Management's Response

The City initially accounted for certain capital projects with multiple funding sources through a single account on the City's general ledger. This means proved to be unmanageable for both capital cash flow management and grant receivable management and was subsequently changed to account for each funding source with a distinct account. The accounting of projects in this fashion caused the City to issue a de minimis amount of long term debt, which was subsequently adjusted downward with a subsequent bond issue. With regards to the procurement of capital projects and the applicable procurement files, the City shall ensure that the prerequisite files are complete and the conversion of contract change orders to purchase orders in the City's Intergraded Financial Management System occur more timely.

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 some of the deficiencies we identified:

- There were no internal vulnerability assessment or penetration test activities performed during the period under evaluation. This presents the risk of a greater attack surface as network perimeter security assessment is limited to a per quarter to per annum activity.
- 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.
- An independent contractor(s) was not hired to conduct an independent review of internal control. This presents the risk that potential weaknesses in internal control may not be identified timely, creating a greater attack surface.
- There were no documented policies and procedures on information security during the period. This presents the risk that information security functions are largely tactical in nature and not adequately supported by governance.
- 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.

Recommendation

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

Management's Response

The City is currently performing a cost benefit analysis as it relates to the items noted by the independent auditors. The specific items observed, penetration testing should occur more frequently but due to limited resources available to Technical Services, this occurs annually. Should additional resources be appropriated, external risk assessments and independent reviews of internal controls will be pursued. With regards to policies and procedures on information security, the draft procedure is being finalized and will continue to be updated as technology evolves. Finally, due to the relatively small staff level, the observation regarding technical support staff installing changes shall be controlled by senior management review.

Warrant Bank Account Reconciliation

Comment

The June 30, 2015 bank reconciliation for the City's warrant account contained reconciling items that were an accumulation of variances between warrant funding transfers and actual cash disbursed. The accumulation of variances was for the period of July 2014 through January 2015. Per inquiries, the variances were reconciled and resolved subsequent to year-end.

Due to the importance of cash reconciliations as an internal control over financial reporting, and the volume of activity that occurs in the warrant account, best practice is to reconcile and resolve such variances on a month-to-month basis. Ideally, the only reconciling items greater than one month old in any bank reconciliation would relate to outstanding checks.

Recommendation

We recommend the City strengthen procedures to resolve bank reconciliation variances (other than outstanding checks) on a month-to-month basis.

Management's Response

The City shall enhance reconciliation procedures and adjust prior period reconciling items accordingly.

Withholding Liabilities

Comment

As of June 30, 2015, there are accumulated variances in payroll withholdings dating back several years. 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 historical variances in payroll withholdings and adjust the general ledger accordingly. Once the historical variances are reconciled and adjusted, we recommend the City implement procedures to reconcile and adjust payroll withholding variances on a monthly basis.

Management's Response

Upon adjusting the respective variances, the Treasurer's Office will reconcile and adjust payroll liability accounts quarterly with its federal and state tax filings.