

**CITY OF WORCESTER, MASSACHUSETTS**

**MANAGEMENT LETTER**

**JUNE 30, 2014**



**CliftonLarsonAllen**

CliftonLarsonAllen LLP  
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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, 2014 (except for the Worcester Retirement System, which is as of and for the year ended December 31, 2013), 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 9, 2014, 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  
February 5, 2015

CITY OF WORCESTER, MASSACHUSETTS

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JUNE 30, 2014

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## Comments and Recommendations

### GASB 68

#### Comment

Governmental Accounting Standards Board (GASB) Statement No. 68, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, revises and establishes new financial reporting requirements for governments that provide pension benefits to its employees and retirees.

The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the City will be required to recognize its long-term obligation for pension benefits as a liability in its government-wide and enterprise fund financial statements. Given the significance of the pension fund liability, the financial reporting impact under the new standard will significantly affect the City's financial statements.

The City's required implementation date of GASB Statement No. 68 is fiscal year 2015. Implementation of this Statement will require the City and Worcester Retirement System (WRS) to work closely with its actuary and independent audit firm.

One item of particular importance is the timing of the actuarial valuation that will provide much of the information required by the Statement. The valuation must be completed in a timely fashion that correlates to the timing of the City's fiscal year 2015 audit fieldwork.

#### Recommendation

We recommend the City and WRS collaborate with its actuary and independent audit firm to plan for the implementation of GASB Statement No. 68.

#### Management's Response

The City will collaborate with its actuary and independent audit firm to plan for the implementation of GASB Statement No. 68 including the required implementation of the pension plan's audited financial statements in accordance with GASB Statement No. 67.

## 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:

- The City does not have a documented software and infrastructure change management policy in place. This is particularly important when an organization has programmers/developers on staff and access to source code or other areas of customization of the systems.
- Several IT employees have access to perform network administrator, Pentamation administrator and programming/developer responsibilities. In situations where IT personnel access is not restricted, the City's procedure is for a second IT employee to review changes before moving into a production environment. This review by a second IT employee is not included in written policies and is not documented.
- The City does not regularly perform a documented review of network and application user accounts to ensure only current employees and approved business partners have active user accounts. A terminated employee listing is prepared weekly and compared to the listing of users in the system, however, the review is not documented. Additionally, a list of current employees is not obtained from Human Resources and compared to the list of users to verify consistency.

Furthermore, we reviewed a list of employees that were terminated since the beginning of fiscal year 2014 and identified that employees' Active Directory accounts are not terminated as of the employees' last day of employment. Instead, employees' Active Directory accounts are terminated as of the last day they are on the City's payroll, which in some instances, is not the last day of employment.

- The City has network architecture with centralized authentication implemented with Microsoft Active Directory. There are separate password requirements to access Pentamation and Vision Appraisal. We identified that password requirements could be strengthened.

### Recommendation

We recommend the following:

- Develop a written software and infrastructure change management policy that addresses the following:
  - Routine, major, and emergency changes
  - Change review and approval
  - Planning
  - Communication and documentation
  - Testing
  - Back out plans
  - Documentation of change, expected effect on systems and approval.

- Technically segregate responsibilities within the IT function wherever possible. If the size of the IT organization does not allow all responsibilities to be technically segregated, identify responsibilities that are considered high risk and review activity/event logs on a periodic basis. The City should first focus on monitoring of the production environment which the programmers/developers have access.
- Compare network and application user accounts to a list of current employees provided by HR on a semi-annual basis (in addition to the current terminated list reviewed weekly) to validate only current employees and approved business partners have active user accounts. In addition, maintain documentation to provide evidence of this review.

Terminated employees should be deactivated on the last day of employment, not the last day they are on the payroll. Procedures should be documented around this process to communicate the importance of IT being notified immediately upon departure of an employee.

- Technically enforce stronger password requirements for domain and application users in accordance with industry standards, including, but not limited to:
  - Minimum length of 8 characters
  - Complexity enabled (Upper case, lower case, alpha numeric, special character)
  - Minimum password age of 1 day
  - Maximum password age of 90 days
  - 12-24 passwords remembered
  - Lockout after 5 failed access attempts

Password requirements for all system and application administrators should be in accordance with industry standards and include, but not be limited to:

- Minimum length of 15 characters
- Complexity enabled (Upper and lower case, alpha numeric, special character)
- Minimum password age of 1 day
- Maximum password age of 30 days
- 24 passwords remembered
- 3 invalid login attempts

### Management's Response

The City administration, inclusive of the Technical Services department, discussed at great length the recommendations of the independent auditors as it relates to city's information technology platform and procedures in the context of the existing complement of personnel and budgetary resources. With regards to the suggested change management manual, although the Technical Services has long standing practices regarding the means and methods in which changes are made to both the internally developed and third party software as well as infrastructure, the Department recognizes the importance of having a change management manual and shall begin to develop such.

In the area of network administration and security, the Technical Services Department shall assume the administrative responsibility for the two applications currently not under their jurisdiction. In terms of network security, the Technical Services Department has begun strengthening their password protocols. Initially enhanced password protections shall be implemented on the network domain level and if needed at a future date on an application level. Finally, the Human Resource Department is currently developing employee separation procedure which shall address the concerns observed regarding the deactivation of user privileges.

## **Police Payroll**

### Comment

We evaluated the system of internal control related to Police Department (Police) payroll. One of the supporting documents related to Police payroll is a daily Morning Report that list each employee and their work schedule for the day. The reports are signed by supervisory personnel to document authorization for the employees' daily work schedule. Our testing of twenty (20) employees identified one (1) instance in which a Morning Report did not contain the signature of a supervisor.

### Recommendation

We recommend the Police Department strengthen procedures related to signature authorizations of Morning Reports.

### Management's Response

The Police Department shall ensure that all morning reports are reviewed and approved by supervisory personnel.

## **Contractor Applications for Snow Removal**

### Comment

We evaluated the system of internal control related to contracted services for snow removal. Service providers must complete an application to become an approved contractor. The City's policies and procedures include reviews and approvals of the applications by supervisory personnel. However, there is no documentation of application approvals. Additional control procedures, such as signing and dating approvals on the applications, would provide documented evidence of internal controls and create a stronger audit trail.

### Recommendation

We recommend the City implement policies and procedures to document the approval of contractor applications for snow removal.

### Management's Response

The Department of Public Works procedures will be amended to include supervisory review and approval of contractor applications.

## DCU Center

### Comment

The DCU Center (Center) is owned by the City and managed by a venue management company (SMG). Our firm performed a separate audit of the financial activities of the Center as maintained by SMG for the fiscal year ended June 30, 2014.

Our audit of the Center identified the following (as reported in the Center's *Management Letter*):

### *Event Development Fund*

In March 2014, the City of Worcester (City), SMG and the Digital Federal Credit Union (DCU) amended a Naming Rights Agreement (agreement). The agreement is for the period of March 1, 2015 through February 28, 2025.

As part of the agreement, an Event Development Fund was created. The Event Development Fund will be managed by SMG to purchase talent, underwrite events, or otherwise incentivize new events. In fiscal year 2014, DCU made a payment of \$200,000 to SMG for deposit into the Event Development Fund. The \$200,000 is reported as advance deposits and ticket sales in the Statement of Net Position in the DCU Center (Center) financial statements.

According to the agreement, when promoting events directly, a normal and customary rental fee shall be paid to the Center when the event activities result in a profit. In this case, all monies in excess of the normal and customary rental and use fees shall be deposited into the Event Development Fund. When the event results in a loss, such losses shall be offset by the City and SMG providing for the rent fee and all additional expenses paid out of the fund.

There are various operational, accounting and financial reporting considerations related to the Event Development Fund that need to be addressed by SMG and the City.

### Recommendation

We recommend SMG and the City collaborate and coordinate to implement policies/procedures and internal controls to ensure compliance with the agreement.

### Management's Response

The City and SMG shall develop and implement policies/procedures and internal controls to ensure compliance with regards to the event fund provision of the naming rights agreement.