

CITY OF WORCESTER, MASSACHUSETTS
MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2018



CLAconnect.com

WEALTH ADVISORY
OUTSOURCING
AUDIT, TAX, AND
CONSULTING



CliftonLarsonAllen LLP
CLAconnect.com

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, 2018, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated January 11, 2019, 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 of the City, and is not intended to be, and should not be, used by anyone other than management.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
July 25, 2019

**CITY OF WORCESTER, MASSACHUSETTS
TABLE OF CONTENTS
JUNE 30, 2018**

Comments and Recommendations	1
Refund Bank Account	1
Veterans' Services	3
Police Detail Payroll	5
Information Technology.....	6
Golf Enterprise Fund	9
Health Insurance.....	10
Police Detail Revenues and Receivables	11
Bank Account Reconciliations	13
Accounts Receivable Reconciliations.....	14
Escrow Liabilities/Other Liabilities	16
State Special Revenue and Capital Projects Funds	17
Chapter 90	18
Withholding Liabilities.....	19

**CITY OF WORCESTER, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2018**

Comments and Recommendations

Refund Bank Account

Comment

The City utilizes a bank account to issue various types of refunds and occasional payments of non-appropriated funds. We identified the following related to the refund account:

- The City maintains a policy and procedure manual related to the refund account. We identified the following related to the manual:
 - The manual is primarily focused on policies and procedures related to tax refunds. However, there are other activities that can be processed through the refund account, such as employee withholdings, parking ticket refunds and manual checks.
 - The procedure manual states that all documentation for a given day's refunds are filed by day. However, refund documentation is filed by taxpayer/payee.
- Due to the nature of the refund account, a number of checks remain outstanding for more than a year and become "abandoned property". The City maintains a policy and procedure manual related to abandoned property, which contains a "calendar" of the timing of the procedures the City performs related to old outstanding checks. We identified that some of the dates on the calendar do not reflect current practice.
- Pre-printed checks are used to issue refunds. The City utilizes its Bank's positive pay system as a key internal control to assure that only those checks issued by the City are cashed by the Bank. A manual log is maintained to identify the checks taken from the pre-printed check stock each day. Per review of the fiscal year 2018 check register for the refund account, we identified breaks in check number sequencing. Per inquiry, the breaks in sequencing were caused by printing errors. We identified that the breaks in sequencing and their cause were not consistently being documented in the manual log, however no issues were identified with the electronic positive pay file which would allow an unapproved check to be cashed, which is the key internal control.
- The City should perform a cost/benefit analysis to determine if the current practice of using pre-printed check stock for refunds should be replaced with an automated check writing/printing system.

**CITY OF WORCESTER, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2018**

Recommendation

We recommend the City update the refund account's policy and procedure manual to document all activities that flow through the refund account, including:

- The manual should be updated to include policies and procedures associated with activities other than tax refunds
- The manual should reflect the current practice related to the filing of supporting documentation

We recommend the City update the abandoned property policy and procedure manual for the calendar/timing of procedures performed.

We recommend the City document all breaks in sequencing in greater detail and with consistency (including the reasons for them) in the manual log of checks issued.

Because the City utilizes positive pay functionality as a key internal control for funding checks, the City could perform a cost/benefit analysis to determine if the current practice of using pre-printed check stock for refunds should be replaced with an automated check writing/printing system.

Management's Response

The City concurs with the recommendations and will review and update its policy and procedural documentation on refunds and abandoned property. This will include a more detailed procedure regarding the documentation required when a break in check sequence occurs. The City will also research an automated check writing solution.

**CITY OF WORCESTER, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2018**

Veterans' Services

Comment

We identified the following related to the Veterans' Services department ("the department"):

- Each month, the department files a form (VS-5) with the State that identifies veterans' benefits paid by the City for which reimbursements are requested. The form is required to be submitted within 30 days of month-end. We identified that for fiscal year 2018, 8 of 12 forms were not filed within 30 days of month-end.
 - On a related note, the State reviews the VS-5 forms and will deny reimbursement for various reasons, such as lack of documentation. We identified instances in which reimbursements were denied for the same individuals for the same reasons for more than one month. This highlights the importance of filing VS-5 forms timely to limit the number of instances in which the City pays benefits that are not reimbursable.
- In certain instances where reimbursements are denied by the State, the beneficiaries must refund the City for benefits paid. While the department documents refunds owed on a case-by-case basis, there is no centralized accounting of all refunds owed at any given point in time.
- The City performs monthly reconciliations of benefit expenses per the general ledger to benefits reported on the VS-5 forms. We identified the following related to the reconciliations:
 - 8 of 12 were only signed off by one employee. Best practice is for the reconciliations to be signed by both a Preparer and a Reviewer.
 - 9 of 12 were not dated by both a Preparer and Reviewer. Including dates on the reconciliations enhances the audit trail and allows for an evaluation of the timeliness and efficiency of the reconciliations.
- The department sends memorandums to the City Auditor's Office to record accounts receivable for expected reimbursements from the State. During fiscal year 2018, the memorandums were submitted sporadically and, in some cases, several months after the time period for which the reimbursement claims were submitted.
- The department maintains manual files (referred to as "Pay Cards") for each beneficiary that includes their payment history and other miscellaneous notes. Similar information is maintained in Excel spreadsheets. The use of manual files is duplicative and inefficient.

**CITY OF WORCESTER, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2018**

Recommendation

We recommend the department submit VS-5 forms within 30 days of month-end.

We recommend the department implement and utilize a centralized accounting system to track all refunds owed from beneficiaries.

We recommend that reconciliations of benefits per the general ledger to VS-5 forms be signed and dated by a Preparer and Reviewer.

We recommend the department forward expected State reimbursements to the City Auditor's Office on a monthly basis immediately after submitting the related VS-5 form.

We recommend the department consider discontinuing the use of manual "Pay Cards".

Management's Response

The City shall submit the VS-5 forms to the Commonwealth within 30 days after the end of the previous month, with reconciliations being signed and dated by both the preparer and reviewer. Within 30 days of approval of the reimbursement arising from the VS-5 submittal, the City will determine if a refund is due from the beneficiary and if so an invoice shall be issued. The expected receivable/reimbursement from the Commonwealth and the beneficiary shall then be transmitted to the City Auditor's Office for recognition as a receivable(s). As it relates to manual "pay cards", the City shall review the possible replacement or elimination.

**CITY OF WORCESTER, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2018**

Police Detail Payroll

Comment

We identified the following related to police detail (i.e., “off-duty assignments”) payroll:

- The Police Department maintains a policy and procedure manual related to police details. The manual is dated March 2006. Best practice is to review and update policy and procedure manuals periodically to ensure that current processes are accurately documented.

Recommendation

We recommend the Police Department review the police detail policy and procedure manual and make any necessary updates/edits.

Management’s Response

We will review our detail policy ASAP to ensure that all stipulations are current, relevant, and adequately reflect the administration, execution, and oversight of the Duty Assignments.

**CITY OF WORCESTER, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2018**

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. Each of the deficiencies were also reported in the prior year Management Letter:

- 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.
- The minimum password length for domain users does not meet leading practices. Current policy requires a minimum length of eight characters. This presents the risk of unauthorized access to the trusted internal network and any significant systems and data.
- Both the Pentamotion 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.
- 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.

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

**CITY OF WORCESTER, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2018**

- 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.
- 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.

Recommendation

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

Management's Response

The City did not perform an external risk assessment during the period due to various software upgrades and the replacement of system servers over the past year. The City elected not to perform an external risk assessment on equipment and configurations that were in the process of being replaced during the audit period. The City plans to perform an external risk assessment in January 2020, once all system hardware and software upgrades have occurred.

The City's current password policy meets CJIS standards. However, the City will review its current policy and review security best practices. In addition, an internal NIST-based security assessment will be performed by an outside consultant starting June 11, 2019 and all security policies will be reviewed as part of the assessment.

Pentamotion system access is now reviewed on a quarterly basis and cross-referenced with Active Directory accounts. The Technical Services Department will assume the administrator role for the Vision Appraisal System and schedule regular reviews of user access.

The Technical Services Department will assume the role of application administrator for the Vision Appraisal application and manage user access for the system.

The Vision Appraisal application is a third party application. The City has requested the vendor to strengthen its password controls to follow the same guidelines as the City.

**CITY OF WORCESTER, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2018**

The in-house application development staff program changes are reviewed and approved by the Programming Manager prior to moving into production. However, the City will review and identify additional steps that can be taken to ensure unauthorized changes do not bypass the process.

The City is in the process of reviewing, updating and strengthening its security policies, including the current Data Confidentiality policy. An outside security consultant has been contracted to perform a NIST-based security assessment which includes a security policy review and will begin June 11, 2019.

The City has performed three phishing assessments over the past year, the most recent assessment was performed in March 2019. The City will continue to perform regular phish assessments as part of its cybersecurity awareness program.

**CITY OF WORCESTER, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2018**

Golf Enterprise Fund

Comment

In the prior year Management Letter, we identified various areas for improvement and recommendations related to the Golf Course enterprise fund. The recommendations below remain in effect for the City's consideration.

Recommendation

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.

We recommend the City upgrade and optimize security cameras at the golf course.

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 someone from DPW either conduct inventory counts and/or supervise the counts. At the end of each count, investigations of variances must be documented and resolved.

We recommend the City perform documented monthly reconciliations of liability accounts between GolfNow and the general ledger. We identified that although some of these reconciliations have been performed, they are not consistently performed on a monthly basis.

Management's Response

- 1) Tournament and outing records are reviewed and verified at the golf course. Records are retained for these events. Beginning in FY20, Tournament and outing records will be submitted to DPW Administration after the event is complete to verify receipts are consistent with documented participation in the events.
- 2) The City will review additional opportunities to deploy cameras in the Golf Pro shop and the driving range in conjunction with future golf course improvements.
- 3) DPW Admin will review inventory reports monthly to establish that additions and reductions recorded in GolfNow are reflected in revenues and expenses in the general ledger.
- 4) DPW Admin Staff will conduct or oversee inventory counts at the golf course in July and January of each fiscal year beginning in FY20.
- 5) In FY19, DPW Admin Staff will conduct regular monthly reconciliations of the liability accounts beginning in FY20.

**CITY OF WORCESTER, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2018**

Health Insurance

Comment

In the prior year Management Letter, we identified various areas for improvement and recommendations related to health insurance. The recommendations below remain in effect for the City's consideration.

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.

Management's Response

The City has commenced researching ERP companies to replace its existing Integrated Financial Management System. Additionally, the Treasurers/Budget Office has enhanced the documentation as to payments from the General Fund to : 1) the Internal Service Fund or 2) the respective carriers, cross-walking the respective payment back to the Integrated Financial Management System's enrollment data.

The Treasurer's Office shall work with the City's Human Resources Office to revise procedures involving billings and collections for health insurance coverage.

**CITY OF WORCESTER, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2018**

Police Detail Revenues and Receivables

Comment

In the prior year Management Letter, we identified various areas for improvement and recommendations related to police detail revenues and accounts receivable. The recommendations below remain in effect for the City's consideration.

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. In addition, as part of this process, the City should determine if the police detail fund needs to be replenished with other available funds (e.g., free cash).

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 follows the write-off policy for police detail as follows:

Police detail receivables are unsecured receivables for the City, therefore the City will deem uncollectable invoices billed if the following criteria are met:

1. Invoices outstanding greater than six years old where the city has NOT initiated a small claim action for collection;
2. Invoices where the due date is greater than six years old provided the vendor does not have other outstanding obligations less than six years old;

**CITY OF WORCESTER, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2018**

3. Invoices that have been discharged through Bankruptcy;
4. Invoices that have been issued to entities that are no longer in business or dissolved corporations and therefore cannot be pursued through small claim actions

Miscellaneous accounts receivable, including the Police Detail receivable are reconciled monthly, generally within 45 days of the month end. To alleviate discrepancies between the amounts billed to vendors and the underlying payroll, the Treasurer's Office implemented internal procedures comparing the respective gross billing to the associated payroll. Additionally, the Treasurer's Office amended the "commitment" letter to include the respective journal entry to record the receivable. With regards to reconciling items, variances are researched and journal entries will be proposed to the City Auditor's Office.

**CITY OF WORCESTER, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2018**

Bank Account Reconciliations

Comment

In the prior year Management Letter, we identified various areas for improvement and recommendations related to bank account reconciliations. The recommendation below remains in effect for the City's consideration.

Recommendation

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

Management's Response

The Treasurer's Office will continue to strive to achieve its standard to have bank reconciliations completed within 45 days from the end of the month.

**CITY OF WORCESTER, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2018**

Accounts Receivable Reconciliations

Comment

In the prior year Management Letter, we identified various areas for improvement and recommendations related to accounts receivable reconciliations. The recommendations below remain in effect for the City's consideration.

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

The City follows our write-off policy for tax receivables as follows:

Real Estate Taxes, Water & Sewer and Betterments

Real Estate Taxes and other local service charges may become secured liens on the real property when they become delinquent. The City has a secure interest in such receivable, and therefore would not deem them uncollectable and eligible for write off.

Motor Vehicle Excise Taxes

In accordance with M.G.L. Chapter 60A §7, motor vehicle excise tax bills are deemed uncollectible by reason of the death, absence, poverty, insolvency, bankruptcy, or other inability of the person assessed to pay. Therefore, the City will deem uncollectable an account if any of the following criteria are met:

1. The registered owner is deceased;
2. The liability has been discharged by Bankruptcy;
3. The bill is greater than six years old as of the current fiscal year end;
4. The bill has NOT been marked for nonrenewal with the Massachusetts Registry of Motor Vehicles ("RMV") pursuant to M.G.L. Ch60 §2A;

**CITY OF WORCESTER, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2018**

5. There are no other outstanding bills that contain multiple records of the following information:
 - a. Name and Date of Birth
 - b. MA Registration
 - c. License Number

Note: As of January 1, 2018, the Registry of Motor Vehicles, as part of a system upgrade, has deleted all nonrenewal marks for years prior to that date. Going forward, only 10 years of mark history will be retained by the RMV; therefore any account with balances greater than 10 years from the end of the current fiscal year end will be considered uncollectable and be written off, excepting those accounts that also have outstanding balances less than 10 years from the end of the current fiscal year.

Personal Property Taxes

In accordance with M.G.L. Chapter 59 §71, Personal Property tax bills are deemed uncollectible by reason of the death, absence, poverty, insolvency, bankruptcy, or other inability of the person assessed to pay. Therefore, the City will deem uncollectable an account if any of the following criteria are met:

1. The Assessed owner is deceased;
2. The liability has been discharged by Bankruptcy;
3. The bill is greater than 6 years old as of the current fiscal year end, and there are no other bills issued within the last six years that contain the same account number

All accounts receivable are reconciled monthly, generally within 45 days of the month end. With regards to reconciling items, variances are researched and journal entries will be proposed to the City Auditor's Office.

**CITY OF WORCESTER, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2018**

Escrow Liabilities/Other Liabilities

Comment

In the prior year Management Letter, we identified various areas for improvement and recommendations related to escrow and other liabilities. The recommendations below remain in effect for the City's consideration.

Recommendation

We recommend the City resolve non-timing reconciling items in escrow liability reconciliations in the period following the reconciliation.

We recommend the City complete all quarterly escrow liability reconciliations by the end of the month following the quarter-end.

Management's Response

The City has numerous escrow/deposits credited on its balance sheet for diverse purposes. For those escrow/deposits which require the return of the original deposit with interest, corresponding escrow bank accounts have been established and are reconciled. For residual legacy escrow/deposit accounts the City shall research the purposes with the respective department to determine the purpose and need of said escrow being held by the City.

**CITY OF WORCESTER, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2018**

Stale Special Revenue and Capital Projects Funds

Comment

In the prior year Management Letter, we identified the City maintains many special revenue and capital projects funds with balances for which there was no revenue or expense activity, which may be indicative that the funds are “stale” and no longer represent current activities.

Since the prior year Management Letter was issued, the City has closed/resolved some of these “stale” funds, but several funds remain to be investigated and resolved.

Recommendation

We recommend the City continue to investigate and analyze “stale” special revenue and capital projects funds to determine the status of the funds and to take any necessary actions.

Management's Response

Although much activity occurred in FY19, as has been previously responded, research and resolution, to these legacy accounts has been and will continue to occur. The return of funds to the respective granting agency, the general fund or the capital fund will occur upon determination of the root cause of the nature of the stale funds.

**CITY OF WORCESTER, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2018**

Chapter 90

Comment

In the prior year Management Letter, we recommended the City improve its accounting for Chapter 90 funds to match revenues with expenses. Since the prior year Management Letter was issued, the City has implemented a new accounting methodology that requires expenses to be reclassified once reimbursement revenues are received. However, we identified that the expense reclassifications are not consistently being provided by the Department of Public Works & Parks (DPWP) to the City Auditor's Office in a timely manner.

Recommendation

We recommend the DPWP forward Chapter 90 expense reclassifications to the City Auditor's Office immediately upon receipt of the related reimbursement revenues.

Management's Response

In FY20, we expect to submit the expense reclassifications at the same time that the receipts are received from the Commonwealth as recommended.

**CITY OF WORCESTER, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2018**

Withholding Liabilities

Comment

In the prior year Management Letter, we reported there were payroll withholding account reconciliations that contained variances that should be reconciled and adjusted accordingly in the general ledger.

Since the prior year Management Letter was issued, withholding accounts have been reconciled. However, we identified the following related to payroll withholding reconciliations:

- Several reconciliations contain unidentified variances
- Several reconciliations contain old items that do not clear in subsequent accounting periods
- Several reconciliations are not being completed by the end of the following month

Recommendation

We recommend the City resolve unidentified reconciling items and old, “non-timing” reconciling items in payroll withholding reconciliations, which may include making adjustments to the general ledger.

We recommend the City complete all monthly payroll withholding reconciliations by the end of the following month.

Management’s Response

All withholding liability accounts are reconciled quarterly, generally within 45 days of the month-end. With regards to reconciling items, variances are researched and journal entries will be proposed to the City Auditor’s Office.

