

CITY OF NEWTON

FINANCIAL AUDIT ADVISORY COMMITTEE

ACCOUNTING and AUDIT SUB-COMMITTEE REPORT

TUESDAY, JULY 17, 2012

Present: Gail Deegan (Chair), Alderman Ruthanne Fuller, Alderman Victoria Danberg, Jim Reardon (Treasurer and Collector), David Wilkinson (Comptroller), and Maureen Lemieux (Chief Financial Officer)

One of the reasons that the Accounting and Audit Sub-committee was established is to review individual department responses to specific concerns in the external Auditor's Management Letter. The goal of the Sub-committee is to understand what each department is doing to address comments related to their department. The Treasurer and Collector joined the Sub-committee to discuss the management letter concerns related to unclaimed checks, old outstanding checks, and bank account reconciliations.

The Sub-committee began the discussion with the Bank Account Reconciliations comment. The external auditor had commented that they had "identified several instances where reconciling items identified on *individual bank account reconciliations* were not clearly described and the documentation supporting the reconciling items was not readily available." The external auditors recommended "that all bank reconciliations clearly describe the reconciling items that provide a clear audit trail to the documentation supporting the amounts."

The City has approximately 40 bank accounts and 7 bank trust accounts. The trust accounts require minimal maintenance because the Treasurer's role is fiduciary, as the Trustees of the funds direct the Treasurer.

The Treasurer's actively manages the other bank accounts, which are operating accounts of one type or another. The City has at least one investment account with almost every bank it does business with, which means there is an account where the City leaves money that is not immediately needed. The other accounts have specific purposes such as to pay taxes, payroll, vendors...etc. As each account has a purpose, if they were shut down, the function would need to be transferred to another account.

The reconciliation process has improved significantly and the Treasurer's Office is providing the reconciliations on a monthly basis to the Comptroller's Office. However, the external auditor commented on an exception to the reconciliations related to unidentified items. The comment stated that there were several instances where reconciling items were not clearly described. The Treasurer understands why the auditor made the comment and added that there

should be a well-defined written description associated with each item to provide a clear audit trail. The Treasurer is making every effort to provide a description for every reconciliation item.

There was a breakdown in the process in terms of confirming a deposit by a City Department into a bank account, which creates an outstanding item. There has been significant improvement in the process, which has resulted in quicker, cleaner reconciliations. The Administration has established a Finance Cluster composed of City Departments and the School Department that meets regularly. This has helped address the reconciliation issues. In addition, it would be helpful to create some documentation on the processes for reconciliations for each City department.

The Treasurer expects that the bank reconciliation comment has been addressed and will not reappear in the next management letter from the auditor.

The next management letter comment relates to the lack of availability of supporting information that is needed to follow up and resolve unclaimed check issues. The external auditor commented that at June 30, 2011, “the City’s general ledger reports a liability for unclaimed checks totaling approximately \$505,000. However, a current list of check numbers, check dates, payee names, address and related amounts that support the amount reported on the general ledger was not provided to us.” They recommended that the “Treasurer/Collector’s office investigate and identify the check numbers, check dates, payee names and related amounts” and “implement procedures to investigate and resolve the unclaimed check amounts.”

The Treasurer believes that there was some miscommunication between his office and the auditor as the information was available but not centralized. The Treasurer has since sent the information to the auditor. The Treasurer has created a database of all supporting information that will be maintained in the future.

In an effort to resolve the unclaimed checks, the unclaimed checks are posted to the City’s website with instruction on how to claim the check. The postings have generated a large volume of responses. The Treasurer plans to keep the website up-to-date by removing the oldest unclaimed checks and replacing them with the newest. The current amounts for unclaimed checks are \$55,900 in payroll and approximately \$200,000 in vendor checks.

The Treasurer believes that the issue has been addressed to the satisfaction of the auditor; therefore, he does not expect the comment will be included in the auditor’s management letter next year.

The external auditor also included a comment about old outstanding checks. The auditor commented that “the vendor and payroll outstanding checklists maintained by the Treasurer include many checks greater than three (3) months old totaling approximately \$259,000. Typically checks greater than three (3) months old reflect checks that have been void, lost, misplaced or stolen.” The auditor recommended that “the Treasurer/Collector’s office implement monthly procedures to investigate and resolve outstanding checks greater than three (3) months old.”

The Treasurer began discussion of the auditor’s comment related to vendor and payroll outstanding checks over three months old. The Treasurer ran into an issue with the bank who handles the payroll, which left stops and voids on their outstanding list. The Treasurer has since spoken with the bank and reached an agreement where after 60 days old checks will no longer be listed. The bank is also providing the City with a stale dated check list, which lists the checks that have been out for over 90 days. The Treasurer takes that list, investigates the outstanding checks, and posts it to the City website. If the checks are still outstanding after investigation, they have to go into tailings. The tailings procedures take a year to complete. The Treasurer provided the attached information on the City’s tailing procedures.

The additional procedures related to old outstanding checks should result in the elimination of the comment in the next management letter.

The Sub-committee discussed how to increase employee participation in automatic deposit and electronic pay vouchers. The City has done a number of notifications to employees for both automatic deposit and electronic pay vouchers. Each of the notifications has resulted in a number of employees signing up. The city plans to continue to periodically notify employees to encourage participation in automatic deposit and electronic pay vouchers.

There was a brief discussion on issues related to the City’s payroll procedures. If there is a mistake in payroll, it is very difficult to rectify and very time consuming. There needs to be improvement and training in the payroll process to avoid errors. The Administration has recently taken steps by forming the Financial Information Systems Department to focus on improving the payroll process.

As the Sub-committee addressed all the items on its agenda, it adjourned at 7:10 p.m.

Respectfully Submitted

Gail Deegan, Chairman

Tailings Procedure

1. Read Mass General Law 200 A. Section 9A:
<http://www.mass.gov/legis/laws/mgl/200a-9a.htm>
2. Get listing from Bank of all outstanding checks 3 months or longer (they give csv file). Get IT dept to provide any data needed to your CSV file from comptrollers database so you can do a mailing/mail merge. Clean up the file in Excel and create the letters in Word.
3. There are two tailings letters, one for \$100 or more and one for \$99.99 and under. The \$99.99 has a paragraph of language that indicates the city can take this money if there is no response after 60 days. See Tailings folder on F drive, then go to Tailings FY10 Vendor folder. Make sure Mayor and Treasurer names are correct in letterhead.
4. Send a letter to all.
5. Post listing on website for 60 days or longer (post them all).
6. Keep a listing of dates letters mailed and notice posted on website and published in newspaper for possible audit purposes. Keep a published copy of the newspaper ad in your tailings folder.
7. After mailing letter to those at \$100 + and waiting for 60 days, publish listing of unclaimed checks (\$100 and over only) in Newton Tab. Supply IT with updated listing that matches that of the newspaper advertisement so people can download the form and claim the property. IT will also put a link for the Abandoned Property Claim form there as well.

See instructions called "Ads in Newspaper" in procedures folder. You will e-mail to: legals@cnc.com this is not a consumer-store type of ad, this is a legal ad.

This wording is at the top of the listing (read the statute/law first to make sure):

Notice of Names of Persons Appearing to be Owners of Checks Issued by City of Newton, Which Have not Been Cashied and are Deemed Abandoned

Per order of the Treasurer & Collector Jim Reardon, information about each check may be obtained by expressing an interest in the check by addressing an inquiry, in writing, to the Deputy Treasurer & Collector Linda Dubuque, City of Newton Treasury, 1000 Commonwealth Avenue, Newton, MA 02459, or via e-mail to: ldubuque@newtonma.gov Website: www.newtonma.gov

Name, address, city, state zip
Name, address, city, state zip

Then you list the full name and address only. One name and address per line, word format. E-mail Word.doc to newspaper. Look at their proof. For some reason they drop lines.

8. For checks \$99.99 and under, as of this writing, you can put into tailings after 60 days (or wait for the \$100 over and do one schedule as the requests seem to dribble in months after the mailing has been sent.)
9. For checks of \$100.00 and over, as of this writing, you can put into tailings after waiting a year (from the date of mailing letters (the date deemed abandoned)).
10. Give Comptrollers a "Cash Receipts Schedule" as we must report new tailings as cash receipts. GL Account # 01-2520 and provide a supporting list of check numbers; payees; and \$ amounts for cks put into tailings. Give comptroller excel report in Payee order/Alpha order.
11. Put VOID on the checks with the bank. (not a stop payment). Checks should be voided with the bank.
12. To replace a check that has been put into Tailings, give comptrollers a copy of tailings listing showing that line highlighted with back-up.

TO REMOVE A VENDOR CHECK FROM TAILINGS:

Once you have confirmed that the tailings check at hand has not already been re-issued then proceed as follows:

Generate a cash disbursement warrant (A/P warrant) request via a Finance Plus accounts payable warrant. You may need to obtain a vendor number from Purchasing Department if one is not already set-up.

Deliver to Comptroller's Office, with all the standard paperwork, business as usual. This entails
1.) stamping the source document with the vendor#, account#, budget code#, and Dept Head signature.

2.) Batch payables edit list (from Fin Plus) with Dept Head initials

3.) Comptrollers coversheet, signed by Dept Head

Per advice from David Wilkinson in May 2011, we should be using the following accounts:

Account # 01-2520 for checks put into tailings in previous years (pre-FY11)

Account # 01-2520B for checks put into tailings during FY11. However, use the account # 01-2520 for checks put into tailing prior to FY11.

It is recommended that you confirm which GL # to use with either the Comptroller or Treasurer.

Do not replace a check that was put into tailings with a manual check .

No cash receipt schedule is needed.