

CITY OF NEWTON

FINANCIAL AUDIT ADVISORY COMMITTEE

ACCOUNTING and AUDIT SUB-COMMITTEE AGENDA

TUESDAY, FEBRUARY 17, 2015

Room 211

4 PM

Review of the following individual department responses to the Auditor's Management Letter with representatives of the School Department, Police Department, Inspectional Services Department Treasury Department and Comptroller's Department.

- Student Activity Funds
- Police Details
- Inspectional Services Account Receivables
- Risk Assessment and Monitoring
- Investment Policy for Certain Trust Funds

Respectfully submitted,

Gail Deegan, Chairman

**Prior Year Comments - Partially Resolved**

## Police Details

### Comment

Our prior year management letter identified the following related to police details:

- A formal policy that addresses the write-off of uncollectible police detail accounts receivable would assist the City in maintaining a fair and accurate accounts receivable balance and, in turn, identify amounts that must be funded from the General Fund timely.
- The Police Department utilizes an internally developed access database to account for its police detail billings and collections. The use of software specifically designed for billing and collection would provide clearer audit trails and the ability to produce billing and collection reports effectively and efficiently.

During fiscal year 2014, the City developed and implemented policies regarding uncollectible police detail accounts receivable and the write-off of such receivable balances.

However, during fiscal year 2014, the City did not convert its police detail billings and collections to a new software program specifically designed for billing and collection. Subsequent to fiscal year end, the City's Information Technology Department developed a new billing and collection system that is fully integrated with the police detail scheduling and payroll systems of the City. As of the date of this report, the remaining step is to integrate the system with the general ledger.

### Recommendation

We recommend the City complete the implementation of the new police detail billing and collection system in fiscal year 2015.

### Management's Response

Management is in agreement with this recommendation and will work with the City's Financial Information Systems Department in identifying the cost and timetable for integrating the police detail billing system with the general ledger.

## **Risk Assessment and Monitoring**

### Comment

Our prior year management letter contained various recommendations related to risk assessment and monitoring. During fiscal year 2014, the City made progress in this area. The City's Risk Assessment Sub Committee of the Financial Audit Advisory Committee held regular meetings, identified various areas of risk to conduct further studies on and formally documented their progress through meeting minutes.

### Recommendation

We recommend management continue to develop and implement a risk assessment program to periodically anticipate, identify, analyze, and manage the risk of asset misappropriation. The risk assessment program should be formally documented and become part of the City's financial policies and procedures.

We recommend management develop and implement a monitoring program to periodically evaluate the operational effectiveness of internal controls. The monitoring process should be documented in order to facilitate the evaluation of controls and to identify improvements that need to be made.

### Management's Response

Management is in agreement with this recommendation. The Comptroller will make recommendations to the Audit Committee in early 2015.

## Financial Policies and Procedures

### Comment

Our prior year management letter identified that although the City has adopted top level financial policies and has certain limited processes documented, preparation of formal policies and procedures would improve and standardize the City's financial policies and procedures. Without formalized written policies and procedures, the City is inherently subject to everyday inconsistencies in its operations. It is also difficult to measure performance and efficiencies without a baseline. The number of such inconsistencies can be minimized by the written codification of policies and procedures and insistence on adherence to them.

Formal policies and procedures should include content that is relative to all financial functions and processes. At this time, the items of priority are the following:

- Administration of state and federal grants
- Personnel (ie hiring, payroll and related Human Resources data base changes)

The written policies and procedures should also clearly define the objectives, responsibilities and authorizations for all employees/job positions.

The use of written policies, procedures, and job descriptions in conjunction with specific assignment of responsibilities would increase supervisory personnel's effectiveness. Such written documents would decrease the time spent on supervision of clerical personnel and in attempts to define job responsibilities on each occasion of employee turnover.

In addition to the policies and procedures posted on the Comptroller's page of the City web site in prior years, the following new policies were implemented and posted to the web site during fiscal year 2014:

- Mayor Contract Signing Delegation
- School Committee Contract and Payroll Signing Delegation
- Mayor Acting Veteran Services Officer Delegation
- Mayor Employee Paid Admin Leave Authorization Delegation
- Procurement Policies
- Various Human Resource Policies

### Recommendation

We recommend the City continue progress towards developing and implementing formal financial policies and procedures.

### Management's Response

Management is in agreement with this recommendation. The Comptroller will produce a grants administration guide during the first half of 2015 and the Audit Committee will discuss the need for documentation of Human Resources activities with the City's Chief Financial Officer/Chief of Staff.

## **Current Year Comments**

## Inspectional Services Department (ISD)

### Comment

We identified the following deficiencies related to the ISD:

- The ISD does not maintain formal policies and procedures. Written policies and procedures would improve and standardize the ISD's financial policies and procedures. Without formalized written policies and procedures, the ISD is inherently subject to everyday inconsistencies in its operations. It is also difficult to measure performance and efficiencies without a baseline. The number of such inconsistencies can be minimized by the written codification of policies and procedures and insistence on adherence to them.
- The ISD performs reconciliations of fees by permit issued to cash receipts collected. However, the reconciliations are not signed and dated by the preparer and supervisory reviewer, nor are they filed for record-keeping purposes. Signing, dating and filing reconciliations would provide documented evidence of internal controls and create an audit trail.
- We reviewed ten (10) cash receipt turnover forms submitted by ISD to the Treasurer's Office for processing and recording to the general ledger. Four (4) of the 10 forms had to be revised and resubmitted due to small clerical errors. Additional efforts should be made to submit accurate, original turnover forms to reduce the risk of incorrect entries to the general ledger and to reduce the administrative burden of revising and resubmitting the forms to the Treasurer's Office.

### Recommendation

We recommend the ISD perform the following:

- Develop and implement written financial policies and procedures
- Implement procedures to sign, date and file reconciliations of fees by permit issued to cash receipts collected. The reconciliations should be signed and dated by preparer and supervisory reviewer.
- Strengthen procedures to prepare accurate, original cash receipt turnover forms

### Management's Response

Management is in agreement with this recommendation. The Audit Committee will meet with the Inspectional Services Department and Treasurer's Office in early 2015 to review plans for implementation of the recommendations.

## Bigelow Middle School Student Activity Funds

### Comment

We evaluated the systems of internal control surrounding the student activity funds cash receipts processes at the Bigelow Middle School (BMS) and identified the following deficiencies:

- During fiscal year 2014, a standard turnover form was not utilized to document cash receipts collected. The use of a standard turnover form is recommended by the Massachusetts Association of School Business Managers (MASBO) and strengthens internal controls by identifying, among other things, the purpose of the receipt, the amount and the person turning the money over.

We identified a standard turnover form was developed and implemented in fiscal year 2015.

- Our inquiries identified that cash receipts are not consistently deposited within 48 hours of collection, as recommended by MASBO.

We identified adequate controls are in place to safeguard cash receipts prior to deposit.

### Recommendation

We recommend BMS perform the following:

- Continue to utilize the standard turnover form during fiscal year 2015 and subsequent
- Implement procedures to deposit all cash receipts within 48 hours of collection

### Management's Response

Bigelow Middle School has made permanent the use of the standard turnover form. The principal and bursar have allowed time in the weekly schedule to deposit cash receipts within 48 hours of collection.

## Investment Policy for Certain Trust Funds

### Comment

The City has a formal investment policy related to its excess cash flow. In addition, various trust funds maintained by the City are managed by Trustees with formal investment policies. However, we identified that certain trust funds maintained by the City are not governed by formal investment policies.

### Recommendation

We recommend the City develop and adopt a written investment policy for those trust funds that are currently not governed by one. The policy should, at a minimum, address the following:

- Investment objectives
- Maximum amounts for investments and the approval criteria
- Types of authorized investments
- Desired mix of products (especially those considered to create risk)
- Goals for the amount of return expected
- Approved vendors of investment products
- The maximum length of time cash can be committed

### Management's Response

Management is in agreement with this recommendation. The Comptroller and Treasurer will work with a sub-committee of the Audit Committee and/or Finance Committee in developing an inventory of cash balances available for more appropriate investment; develop an investment policy; and select appropriate investment vehicles to achieve investment returns consistent with trust fund cash flow and benefit requirements, time horizons and risk levels, as well as the cost of available investment vehicles.