



Financial Audit Advisory Committee

Report

Tuesday, February 9, 2016

Present: Councilor Ruthanne Fuller (Chair), Councilor Jacob Auchincloss, School Committee Member Margaret Albright, Anthony Logalbo (Citizen Representative), Robert Fox (Citizen Representative), David Spector (Citizen Representative), and Councilor Victoria Danberg

Also present: David Wilkinson (Comptroller) and Sue Dzikowski (Director of Finance; School Department)

Annual Report

The Committee's draft annual report was provided to the Committee via e-mail for review and approval. The Committee unanimously approved submittal of the annual report to the Finance Committee of the City Council.

External Auditor's Management Letter

The Committee reviewed comments in the Management Letter provided by the City's external auditor, Clifton Larson Allen LLP. The Management Letter contains three comments, which were identified last year and resolved. There are two comments from the prior year that are partially resolved and two prior year comments that are not resolved. The letter also contains a comment that was identified this year related to the water, sewer and storm water payroll in the Utilities Division of the Public Works Department. The Management Letter also contains responses from the City's Administration to the comments. The Financial Audit Advisory Committee's Accounting and Audit Sub-Committee will discuss the unresolved, partially resolved and newly identified comments and the responses to the comments with the relative department heads.

The Sub-committee will also look at the Independent Auditor's findings related to the City's compliance with requirements for federal grants and contracts. The auditor issued a modified opinion on the Emergency Solutions Grants Program, as the City did not comply with requirements of the grants program, which resulted in a material noncompliance finding. In addition, there were other instances of non-compliance and/or significant deficiency in internal control over compliance related to several programs administered by the Planning Department that did not rise to the level of material noncompliance. At the Financial Audit Advisory Committee's last meeting, members of the Planning Department staff joined the Committee to explain the findings and the corrective measures that have been put in place. There is also one finding of noncompliance and significant deficiency in internal control over compliance related

to the School Department's Special Education Cluster funding, which has been resolved. The Sub-committee will review the corrective actions that have been put in place.

Risk Assessment

The Financial Audit and Advisory Committee established a Risk Assessment, Monitoring & Compliance Sub-committee that last met in July 2014. At that time, the sub-committee narrowed its focus to risk related to cash and checks and how the City handled collections. The sub-committee determined that over a series of years the external auditor would look closely at two departments' procedures for cash and check collections each year. The departments were chosen based on the amount of cash collected within the department. The Assistant Treasurer and the School Finance Department worked to provide departments with written policies and procedures related to cash collection. The City needs to continue to provide this information to departments to ensure that all employees are aware of the policies.

Over the past couple of years, the auditor has included a partially resolved comment in the Management letter and a recommendation related to risk assessment and monitoring. The recommendation states that the City should continue to develop and implement a risk assessment program to identify and manage the risk of asset misappropriation and develop internal controls that the City evaluates on an ongoing basis. The City's response to the recommendation is that the city does not have resources available to address the recommendation but will consider how to obtain the resources to address the recommendation.

Based on the City's response, CLA provided the attached letter stating that for a fee it could assist the City with determining the risk of asset misappropriation and developing internal controls associated with asset misappropriation. CLA is willing to meet to discuss and to provide tangible suggestions and role models. It is up to the committee to determine if it wants to broaden risk assessment beyond misstatement and asset misappropriation.

The committee began an initial discussion related to whether there should be an inventory of all capital assets. The City currently inventories assets that have a value of \$15,000 or more and that inventory does not happen on a regular basis.

In addition, the committee discussed risks associated with cybersecurity and bank transactions. Although the City has implemented safeguards, they are not formally documented. If the City places additional emphasis on cybersecurity, it may lead to further safeguards.

The Committee will continue discussion on risk assessment in April 2016. Comptroller David Wilkinson will provide Nantucket's risk assessment policy and the City's moveable assets spreadsheet by department for the April meeting. The Committee will look at activating the

Risk Assessment, Monitoring, and Compliance Sub-committee for in depth discussion on risk assessment policies and procedures.

Goals and Meeting Schedule

The Committee discussed what priorities that they would like the external auditors to focus on in 2016. The Committee agreed that State and Federal grant compliance, the role of the Human Resources Department in payroll, and fraud protection should be examined. The Committee may want to consider what role the Committee could or should have in relaying information and or educating employees and citizens on the City's long-term pension and other post-employment benefit liabilities.

The meeting schedule for the Committee is as follows:

Tuesday, April 19 at 8:15 AM

Tuesday, October 11 at 8:15 AM

Tuesday, December 13 at 8:15 AM

The Committee adjourned at 9:30 a.m.

Respectfully submitted,

Ruthanne Fuller, Chair



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February 4, 2016

To: Ms. Ruthanne Fuller, City Councilor
Mr. David C. Wilkinson, Comptroller

Re: Risk Assessment

Dear Ms. Fuller and Mr. Wilkinson:

Over the past several years, the City of Newton's Management Letter has reported a comment and recommendation related to Risk Assessment and Monitoring. The City's most recent response to this recommendation indicated the possible need for external resources to assist the City in implementing risk assessment and monitoring procedures. In that regard, you have requested we provide you information on how CliftonLarsonAllen (CLA) can offer assistance to the City in this area.

Partly in response to our Management Letter recommendations, the City established a Risk Assessment, Monitoring & Compliance Sub-Committee. As noted by the Sub-Committee, risk assessment and monitoring is a broad concept involving many types of risk assessments, including but not limited to:

- Compliance
- Internal Audit
- Financial Statement
- Information Technology

While risk assessment has many elements, our Management Letter comment on risk assessment is primarily geared towards the risk of asset misappropriation and internal controls associated with asset misappropriation. As such, we believe this should be the initial focal point of the risk assessment process and the types of services that CLA could provide the City.

Our first approach would be to conduct a meeting with the appropriate parties to discuss the progress the City has made in its risk assessment efforts to date and gain an understanding of where you feel there are potential risks of asset misappropriation. The meeting would provide us with an opportunity to share our thoughts, collaborate with you and help define a scope of services that is most beneficial to the City.

As identified in our previous Management Letter comments, once the areas vulnerable to risk have been identified, the next steps in the risk assessment process are to conduct a review of the systems, procedures and controls related to the areas of risk and to monitor those risks periodically over time. This is the portion of the risk assessment process where we believe CLA can provide the most value.

As an example, the Risk Assessment Sub-Committee has previously identified departmental cash receipts (i.e., those collected outside of the Treasurer's Office) as an area of potential risk. That's the first step in the process. Where the City may need our assistance the most is in the next steps – review, test and monitor controls – because of the time and effort it takes to perform these procedures.

Our reviews of systems, procedures and controls related to areas of risk that have been identified would include the following:

- Gain an understanding of internal controls through inquiry and observation
- Test transactions to determine if controls are operating as intended
- Report on the results of our testing and provide recommendations for improvement
- Establish a monitoring plan
- Conduct monitoring follow-ups

We welcome the opportunity to assist the City and look forward to discussing this topic further with you. Should you have any questions or would like to schedule a meeting with us, please do not hesitate to contact us.

Sincerely,

A handwritten signature in black ink, appearing to read "Matthew S. Hunt". The signature is fluid and cursive, with a large initial "M" and a stylized "H".

Matthew S. Hunt, CPA
Principal