

CITY OF NEWTON

FINANCIAL AUDIT ADVISORY COMMITTEE

ACCOUNTING and AUDIT SUB-COMMITTEE AGENDA

THURSDAY, FEBRUARY 21, 2013

Room 222

8 AM

Discussion with the Law Department regarding options related to the trust for Other Post-Employment Benefit (OPEB) funds.

Review of the following individual department responses to the Auditor's Management Letter with representatives of the School Department, Police Department, and Public Works Department.

- Student Activity Funds
- Police Details
- Water and Sewer Billings

Respectfully Submitted

Gail Deegan, Chairman

Student Activity Funds

Comment

The City maintains student activity funds for several of its schools. Massachusetts General Laws (MGL) Chapter 71, Section 47, which establishes various guidelines related to student activity funds, states the following:

"There shall be an annual audit of the student activity funds which shall be conducted in accordance with procedures as agreed upon between the school committee and the auditor based upon guidelines issued by the department of education."

An annual audit or agreed upon procedures is not being performed on the City's student activity funds. Based upon the MGL requirement and the inherent risks associated with student activity funds, we believe that the performance of an audit or agreed-upon procedures on the City's student activity funds would be prudent.

It should be noted that the City's general fund does not necessarily have to bear the cost of the audit or agreed-upon procedures engagement, as these activities can be funded from student activity fund resources.

Recommendation

We recommend the City comply with the requirements of MGL Chapter 71, Section 47 by having an audit or agreed-upon procedures performed on the student activity funds.

Management's Response

There are agreed-upon written procedures in place for Student Activity Funds of the Newton Public Schools. A representative of the School Business Office annually reviews certain Student Activity accounts for compliance with the agreed-upon procedures and targets one of the two high schools, two of the four middle schools; or three of the elementary schools. These procedures, developed by the Deputy Superintendent/Chief Administrative Officer, in conjunction with the Director of Business Services and the Director of Finance, insure reconciliation of each school's checking account and fund balance records to the City's Agency Fund general ledger control account and that revenues and expenditures flowing thru the Student Activity accounts are solely for purposes of student related goods and services

At present, fifteen of the City's twenty-one schools have Student Activity Funds. The remaining six schools provide for student activities in conjunction with PTO's.

Student Activity Funds

Comment

The City maintains student activity funds at many of its schools. Massachusetts General Laws (MGL) Chapter 71, Section 47, which establishes various guidelines related to student activity funds, states the following:

“There shall be an annual audit of the student activity funds which shall be conducted in accordance with procedures as agreed upon between the school committee and the auditor based upon guidelines issued by the department of education.”

Consistent with prior years, an annual audit or agreed upon procedures was not performed on the City’s student activity funds. However, subsequent to fiscal year end, the City internally performed agreed upon procedures on the Newton North and Newton South High Schools’ student activity funds.

Internally performed audits and/or agreed upon procedures are considered acceptable in complying with the related requirements of MGL Chapter 71, Section 47. However, the Massachusetts Association of School Business Officials’ (MASBO) *Student Activity Accounts Guidelines for Massachusetts School Districts* recommends an independent audit firm conduct the audits and/or agreed upon procedures at least once every three (3) years.

Recommendation

We recommend the City continue to make a concerted effort to comply with the requirements of MGL Chapter 71, Section 47 by, having an annual audit or agreed-upon procedures performed on *all* of its student activity funds.

We recommend the City consider the MASBO recommendation to have an independent audit firm conduct the student activity fund audits and/or agreed upon procedures at least once every three (3) years.

Management’s Response

The Newton Public Schools will work with the Comptroller to follow the MASBO recommended guidelines for student activity fund audits on a three year basis. The plan will be to continue the internal audits and to establish a schedule for independent audit review on approximately one third of the school accounts each year during the three year period, subject to available funding.

Police Details

Comment

The City currently has approximately \$125,000 of police detail accounts receivables that are greater than one-year old. The receivables greater than one-year old date as far back as March 2005. For financial reporting purposes, the City considers these amounts uncollectible.

A formal policy that addresses the actual "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.

Recommendation

We recommend that the City develop and implement a formal policy regarding uncollectible police detail accounts receivable.

We also recommend the City evaluate the current billing and collection practices surrounding its police detail activities.

Management's Response

The Law Department is actively engaged in a multi-step process towards the collection of delinquent police detail accounts receivables. The City has been successful in recouping a large number of account receivables, as well as the costs associated with the collections process. Additionally, the Law Department is assisting the Police Department in the development of improved collection procedures. Such measures include a four-hour minimum deposit to be paid at the time of the detail request, a comprehensive application procedure, and improved record keeping.

Police Details

Comment

The City currently has approximately \$33,000 of police detail accounts receivables that are greater than one-year old. The receivables greater than one-year old date as far back as May 2008. For financial reporting purposes, the City considers these amounts uncollectible.

A formal policy that addresses the actual "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.

In addition, the Police Department utilizes an internally developed access database to account for its police detail billings and collections. We believe 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.

Recommendation

We recommend the City develop and implement a formal policy regarding uncollectible police detail accounts receivable and the "write-off" of such receivable balances.

We recommend the City consider purchasing "off the shelf" software to maintain its police detail billing and collection activities.

Management's Response

The City's Law Department continues to work with the Police Department in an effort to collect all delinquent unpaid police detail bills. A process is currently in place whereby the Police Department and Law Department review outstanding detail receivables and based upon their joint analysis recommend the write off of any amounts not judged to be collectible to the Comptroller. A total of \$34,451 in such unpaid accounts was written off at June 30, 2012, using unexpended police salary funds as a financing source. The City's existing police detail receivable system is currently being modified to allow for the calculation and accounting and reporting of interest on delinquent accounts. Weekly uncollectible account reports are also now being forwarded to the Law Department; Engineering Department; and Comptroller. We will continue to evaluate options to existing billing and collection software.



STANDARD OPERATING PROCEDURES NEWTON POLICE DEPARTMENT

Bureau: ADMINISTRATIVE (CHIEF'S OFFICE)	Date Issued: 01/14/13	Effective Date: 01/14/13	SOP#: 100-49
Section: PAID DETAILS PROCESSING	Date of Revision:	Revision Number:	Page Number: 1 of 5
Subject/Event: Paid Detail Accounts Receivable / Debt Collection			

Executive Summary

The Newton Police Department provides paid police detail services to private and non-profit individuals or entities as a means of protecting the health and safety of persons and property. The individuals or entities (“customers”) that contract for this service are obligated to pay fees promptly. The Police Department must make diligent efforts to collect these fees on behalf of the City, which efforts shall include pursuing all available debt collection methods for paid details such as: processing invoices; sending past due and final notices; making follow-up telephone calls to customers; and referring overdue accounts to the Newton Law Department. This standard operating procedure outlines key responsibilities in the accounts receivable and debt collection process.

Considerations

The Paid Details Records System (“PDRS”) is the official database used to record receivables and customer information. Police Department employees who have authorized access to this system will be assigned a logon and password and shall use all reasonable means to ensure data entered for any receivable or customer is accurate and complete, and that this information and system passwords are protected from unauthorized release.

Procedure

The Details Office shall be under the direct command of the Patrol Bureau Commander. Uniformed officers assigned to this office are responsible for strict adherence to the Newton Police Department’s Police Detail Policy and for the fair and equitable distribution of paid details to off-duty officers. The Details Office staff shall collect and maintain accurate contact and billing information for all customers when police service orders (“paid details”) are generated by telephone

or the Police Department's website. Complete customer information, which shall contain the name of the individual or entity responsible for payment and the name and phone number of the individual who requested the paid detail, will then immediately be sent to the civilian Paid Details clerk who works in the Chief's Office under the direct command of the Chief of Police. The Paid Details clerk has the primary responsibility for day-to-day compliance with accounts receivable and debt collection procedures.

Customers who contract with the City of Newton for police detail services shall be encouraged to pay all service fees online, including the ten (10) percent administrative fee pursuant to Massachusetts General Laws, Chapter 44, Section 53C. The billing procedure for customers who have neither the opportunity nor capability to pay service fees online shall be as follows:

1. An itemized detail invoice for police services, payable within thirty (30) days, shall be processed by the Paid Details clerk and sent to the customer.
2. All invoices shall include the invoice date, due date, a unique invoice number, address and telephone number for the police department, name and billing address for the customer, name of individual or entity responsible for payment, location where the services were provided, date and time the services were provided, the hourly detail pay rate for each assigned officer, and the sum total owed by the customer for police services.
3. Effective on November 6, 2012, and pursuant to Massachusetts General Law, Chapter 40, Section 21E, and Newton City Ordinance, Chapter 17, Section 17-15, interest at the rate of fourteen (14) percent per year will accrue on all police services fees that remain unpaid beyond the invoice due dates, which is thirty (30) days from the date of the invoice. Notice of said interest accrual shall be posted on all invoices processed after November 6, 2012.
4. When the initial invoice remains unpaid after thirty (30) days, the Paid Details clerk shall send a "Past Due" notice to the customer via regular mail, and communicate with the customer by telephone or e-mail to inform the customer of this past due notice and the potential for interest accrual.
5. When a Past Due notice remains unpaid after thirty (30) days, the Paid Details clerk shall mail a "Final Notice" to the customer with a signed letter from the Chief of Police

indicating that the account is overdue and will be referred to the Law Department for collection if not settled within thirty (30) days. As a courtesy, the letter should also provide an option for the customer to contact the Police Chief's Office to discuss modified payment plans in the event the customer is experiencing short or long-term financial difficulties.

6. All accounts or other outstanding debt that is delinquent beyond a ninety (90) day period must be immediately reported to the Chief of Police and/or Executive Officer. S/he will take steps to attempt to mitigate this debt, and if unsuccessful, will refer the delinquent account(s) to the Newton Law Department for collection.

The Paid Details clerk shall prepare a "Do Not Hire List" for all non-regular accounts that are delinquent for ninety (90) days or more. The list shall contain the customer and/or entity name, the overdue invoice number(s), and the total amount owed by the customer for police services. The list shall be updated as required and sent electronically upon each revision to the Details Office staff with copies sent to the Chief of Police, Executive Officer, Comptroller's Office, Law Department, Department of Public Works, Engineering Department, and the Inspectional Services Department. Uniformed officers assigned to the Details Office shall cross-reference this list when taking police detail services orders to ensure that Newton Police officers are not hired to work for customers with overdue accounts. Overdue accounts must be settled with the Chief's Office staff or with Newton Law Department staff before further police detail services will be authorized and/or rendered to the customer(s).

Schedule of Payments

All paid details funds collected by Police Department employees in the course of their service to the City must be recorded in the PDRS and summarized as to amount and purpose on a standard City cash receipt schedule and deposited in full with the Treasurer-Collector's Office (with a copy of the schedule provided directly to the Comptroller) on the day they are received. In the event that this is not possible, the receipts must be logged and secured in a locked cabinet or safe until the following business day when the receipts must be deposited with the Treasurer-Collector's Office. All deposits made with the Treasurer-Collector's Office must be summarized as to amount and purpose on a standard cash receipts schedule, an electronic copy of which is available on the Comptroller's forms page of the City intranet. This is a three-page form, with the original to be hand-delivered to the Treasurer-Collector's Office; a second copy to be delivered to the Comptroller's Office; and the

third copy to be retained by the Police Department. Please refer to the *City of Newton, Massachusetts, Departmental Cash Receipt Collection Policy* (Attachment 1) for additional requirements on funds handling.

Pre-Payment Process

The Police Department is actively working on a pre-payment system that will allow customers to pay for police details in advance of the detail using a credit card. While there presently exist some capabilities for credit card processing throughout the City, there is no process in place at this time for credit card pre-payments for police detail services. However, once police services are provided and an invoice is processed, customers may log on to the Police Department's main website and make MasterCard, Discover Card or check payments via the "Inform Us" and then "Pay On-Line" links. This policy will be amended once the pre-payment system is in place.

Debt Write-Off Policy

If, despite diligent efforts to collect on an account, the Law Department is unable to do so the account may be deemed "uncollectible." This determination will only be made after the Law Department has made reasonable efforts to pursue the receivable up to and including legal action. When a receivable is deemed uncollectible, the Law Department attorney responsible for police detail collections will consult with the ranking police representative responsible for police details and the City Solicitor, to recommend that the receivable be written off. A receivable may also be recommended for write-off when a determination is made that the cost of collections is greater than the value of the receivable. The ranking police representative and the City Solicitor shall approve all write-off recommendations. The write-off recommendations shall then be forwarded to the City Comptroller, who shall be responsible for adjusting the City's records accordingly. The individual or entity responsible for payment of any uncollectible receivable(s) shall be placed on the Do No Hire List. To the extent that unobligated salary funds are available in the current year Police Department operating budget, these funds shall be used to fund the write-offs. Should funds not be available in the Police Department salary appropriation for this purpose, a supplemental appropriation shall be requested from the Mayor and Board of Aldermen to fund the uncollectible amounts.

Records Management

The Newton Police Department is the keeper of the official record for all internal receivable information. Receivables entered by authorized employees into the PDRS will supersede any paper copies of the same information. The Newton Police Department must maintain any supporting

or back up documentation related to a receivable entered in the PDRS, and is responsible for retaining and archiving receivable records in accordance with disposal schedules published by the Massachusetts Secretary of State's Records Conservation Board.

CITY OF NEWTON, MASSACHUSETTS

DEPARTMENTAL CASH RECEIPT COLLECTION POLICY

All cash, checks, money orders; and other forms of payment (including credit and debit card payments) collected by City employees in the course of their service to the City are assets of the City of Newton and cannot legally be expended or obligated without prior appropriation or authorization by of the Mayor and Board of Aldermen and a certification of available funds by the Comptroller.

The following policy is applicable to all cash receipts that are not collected directly by the Treasurer-Collector's Office. The policy is intended to protect City assets from loss or misappropriation, and to allow for timely and accurate reporting on the financial position and operating results of the City's various funds and accounts.

All funds collected by employees of the City of Newton in the course of their service to the City must be summarized as to amount and purpose on a standard City cash receipt schedule and deposited in full with the Treasurer-Collector's Office (with a copy of the schedule provided directly to the Comptroller) on the day they are received. In the event that this is not possible, the receipts must be logged and secured in a locked cabinet or safe until the following business day when the receipts must be deposited with the Treasurer-Collector's Office.

All departmental cash receipts, except those applicable to a loan or miscellaneous accounts receivable; guaranteed deposits; or current fiscal year expenditure refunds are deposited to a revenue account on the City's general ledger, and will not increase spending authorization for the depositing department unless the Mayor and Board of Aldermen have previously authorized such flexible spending authority in the form of a revolving fund; grant; gift; or trust spending authorization.

An inventory of each department's existing revenue accounts; adopted revenue budgets; and fiscal year-to-date collection experience (by key-organization and account number) is available in the Finance Plus revenue ledger. This information can be accessed by department; fund; or lower level reporting unit by inquiring against the revenue ledger, using the appropriate query criteria. Staff of the Comptroller's Office is available to assist departments as needed.

All deposits made with the Treasurer-Collector's Office must be summarized as to amount and purpose on a standard cash receipts schedule, an electronic copy of which is available on the Comptroller's forms page of the City intranet. This is a three page form, with the original to be hand-delivered to the Treasurer-Collector's Office; a second copy to be delivered to the Comptroller's Office; and the third copy to be retained by the department making the deposit.

In order to allow for prompt identification of departmental receipt deposits within the City's depository bank account, by department or major program, the Treasurer-Collector has provided each City department with an endorsement stamp and books of bank deposit tickets that include a unique identification number for each department or major program. Departments must endorse each check being deposited with the endorsement stamp provided

by the Treasurer-Collector and complete and attach a bank deposit ticket to each cash receipt schedule delivered to the Treasurer-Collector's Office.

A Treasurer-Collector's Office teller will verify the accuracy of all deposits in the presence of the departmental employee making the deposit and provide the departmental employee with their copy of the cash receipt schedule with a stamp evidencing the date of the receipt of the deposit.

The Treasurer-Collector's copy of the departmental cash receipt schedule, with the stamp evidencing the date of receipt by the Treasurer-Collector's Office, along with a copy of the supporting bank endorsed deposit ticket serves as the source document for Comptroller's Office posting of the cash receipt to the general ledger. Comptroller's Office copies of the departmental cash receipt schedules are matched to the Treasurer's daily cash report and any variances investigated prior to posting of the general ledger.

All employees of the City of Newton, except for the Treasurer-Collector; an Assistant or Deputy Collector-Treasurer; and City Clerk, are covered under the City's blanket fidelity bond. The current annual deductible on the blanket fidelity bond is \$25,000 per loss event. Supplemental fidelity bond coverage for the \$25,000 deductible has been purchased for all custodians of Newton Public Schools student activity fund petty cash accounts.

All depository bank accounts are reconciled by the Treasurer-Collector on a monthly basis and the Treasurer-Collector's cash is reconciled to the Comptroller's general ledger cash and investment control totals monthly. The Comptroller monitor's departmental revenue collections at least quarterly and investigates all variances between current year-to-date revenue experience and year-to-date collection experience for the prior three fiscal years.

Comments and Recommendations

Water and Sewer Billings

Comment

Consistent with the prior years, we identified the following deficiencies related to the City's water and sewer billing system:

- 1. Many water and sewer bills continue to be based on estimates. We identified that some accounts had as many as 12 consecutive estimates and overall approximately 19% of users have multiple estimated bills.
- 2. Many (although a decrease from the prior year) water and sewer bills were based on "false reads", resulting from a faltering metering system.

Beginning in fiscal year 2010 and continuing in fiscal year 2011, the Water and Sewer Department continued to make a concerted effort to obtain actual readings on accounts that were based on estimates (beginning with accounts with the largest number of consecutive estimates) and accounts where readings appeared abnormal. As a result, the Water and Sewer Department issued approximately \$4,800,000 in abatements during fiscal year 2011, an increase of approximately \$1,500,000 from fiscal year 2010. The cause of a substantial amount of these abatements is as follows:

- 1. Overestimates (approximately \$4,080,000)
- 2. False readings (approximately \$369,000)

The installation of new meters and reading devices began in February 2010 and is expected to be completed by April 2012. As of June 30, 2011 approximately 50% of these new meters had been installed, but not necessarily functional. As part of our subsequent audit work, we identified that abatements totaling approximately \$473,000 had been granted for July and August 2011 billings, which is slightly more than the abated amount for the same period of the previous fiscal year by approximately \$41,000. It is imperative that accurate actual readings occur on all accounts at all times to properly bill customers for water and sewer use, which, under the current system, will require Water and Sewer personnel to manually obtain. The current meter reading system is ineffective and inefficient.

Recommendation

The City is currently in the process of replacing all of the City's meters and implementing a new metering process that will allow the City to remotely obtain a reading from City Hall at any point in time. The implementation of this new system should significantly reduce the need for substantial abatements (once the system is fully operational) since estimates will no longer be required and the ability to identify false readings will be enhanced. We recommend that the new metering system be implemented as soon as possible.

Management's Response

The City concurs that accurate and timely actual readings are needed for all water and sewer accounts. As relayed in the "Recommendation" section, the City is in the process of replacing all water meters and reading system to achieve this objective. The current schedule, as of late December, indicates that approximately 98% of the meters will be installed by mid-January, 2012. The remaining meters will be delayed due to coordination requirements with the residents, including the need to replace existing water service lines and other plumbing related issues. The meter contract requires that all meters be tested for accuracy prior to shipping. In addition,

the City conducted independent flow tests in December 2011 on selected new water meters. Thirty meters were tested, including meters that had been installed previously, some that were awaiting installation, and meters of various sizes. All meters met American Water Works Association standards for accuracy.

A recent review of the reading system indicated approximately 80% of the installed meters have been synchronized to the fixed network and are reporting actual consumption. The consumption for the remaining 20% is currently being obtained manually using a hand-held device until they can be synchronized to recently installed collectors. Full synchronization of all meters to the fixed network system is anticipated to be completed in fiscal year 2012.

The fixed network system will allow the City to transform the City's meter reading methods from reactive to proactive, with the new system regularly recording water use data to flag unusual water use patterns. The new reading technology will provide our water and sewer billing clerks with the prompt to reach out to high usage accounts and recommend issues be investigated. The City anticipates abatements will continue to be issued throughout the remainder of fiscal year 2012 with the final bills being issued on the old meters. Beginning in fiscal year 2013, the city anticipates all meters will be read remotely and bills will reflect actual water use.

Comments and Recommendations

Water and Sewer Billings

Comment

Consistent with the prior years, we identified the following deficiencies related to the City's water and sewer billing system:

1. Some water and sewer bills continue to be based on estimates. We identified that some accounts had as many as 12 consecutive estimates and overall approximately 5% of users have multiple estimated bills.
2. Some water and sewer bills were based on "false reads", resulting from a faltering reading system.

The Water and Sewer Department continued to make a concerted effort to obtain actual readings on accounts that were based on estimates (beginning with accounts with the largest number of consecutive estimates) and accounts where readings appeared abnormal. As a result, the Water and Sewer Department issued approximately \$4,000,000 in abatements during fiscal year 2012, a decrease of approximately \$800,000 from fiscal year 2011. The cause of a substantial amount of these abatements is as follows:

1. Overestimates (approximately \$3,100,000)
2. False readings (approximately \$116,000)

The City began the installation of new meters and reading devices in February 2010 and is expected to be completed by December 2012. As of June 30, 2012 approximately 99% of these new meters had been installed, but the reading system was not entirely functional. As part of our subsequent audit work, we identified that abatements totaling approximately \$130,000 had been granted for July and August 2012 billings, a decrease of approximately \$343,000 from the same period of the previous fiscal year. It is imperative that accurate actual readings occur on all accounts at all times to properly bill customers for water and sewer use, which, under the current system, will require Water and Sewer personnel to manually obtain.

Recommendation

The City is currently in the process of replacing all of the City's meters and implementing a new metering process that will allow the City to remotely obtain a reading at City Hall at any point in time. The implementation of this new system should significantly reduce the need for substantial abatements (once the system is fully operational) since estimates will no longer be required and the ability to identify false readings will be enhanced. We recommend that the new metering system be implemented as soon as possible.

Management's Response

The new meter and meter reading systems should be fully operational shortly. Only properties with piping issues remain to be completed, which represents 0.8% of the total project. With actual readings being transmitted, the City anticipates abatements needing to be processed will be minimal, particularly in light of the fact that notification of exceptional usage has already been implemented.