

CITY OF NEWTON

FINANCIAL AUDIT ADVISORY COMMITTEE

ACCOUNTING and AUDIT SUB-COMMITTEE AGENDA

Wednesday, March 29, 2017

Room 211

8:15 AM

Review of the following individual department responses to the Auditor's Management Letter with representatives of the Executive Department, Public Works Department, and the Human Resources Department

- Department of Public Works - Stormwater Billing
- Executive Department - Investment Policy for Certain Trust Funds
- Human Resources - Documentation of Procedures and Policies
- Human Resources - Personnel/Payroll
- Human Resources - Implementing Employee Agreements

Respectfully submitted,

Tony Logalbo, Chair

CITY OF NEWTON, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2016



CliftonLarsonAllen

CliftonLarsonAllen LLP
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To Management
City of Newton, Massachusetts

In planning and performing our audit of the financial statements of the City of Newton, Massachusetts (City) as of and for the year ended June 30, 2016, 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 December 5, 2016, on the financial statements of the City.

We will review the status of these comments during our next audit engagement. We have already discussed 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, the Audit Committee and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, MA
December 5, 2016

Prior Year Comments - Partially Resolved

Financial Policies and Procedures

Comment

Our prior year management letter identified that although the City has adopted top level financial policies and has certain processes documented, preparation of additional formal policies and procedures would improve and standardize the City's financial policies and procedures. Formal policies and procedures should include content that is relative to all financial functions and processes. The written policies and procedures should also clearly define the objectives, responsibilities and authorizations for all employees/job positions.

For fiscal year 2016, the items of priority were identified as:

- Personnel
- Department of Planning and Development (DPD) – state and federal grant compliance
- Fraud protection (including cybersecurity) over bank transactions and accounts

During fiscal year 2016, formal policies and procedures related to DPD and fraud protection (including cybersecurity) over bank transactions and accounts were implemented. Formal policies and procedures related to personnel were not drafted until after fiscal year end.

At this time, the suggested items of priority for fiscal year 2017 are the following:

- Personnel – finalize any draft policies and procedures and evaluate whether additional documentation is warranted
- Department(s) and/or process(es) as chosen by management

Recommendation

We recommend the City continue progress towards developing and implementing formal financial policies and procedures, placing emphasis on the items of priority listed above.

We also recommend that once formal financial policies and procedures are developed and implemented, they be posted on the City's web site.

Management's Response

The following policies and procedures have been updated:

1. Diversity EEO, and Anti-Discrimination Plan
2. Discrimination, Harassment and Retaliation Policy
3. BC Voucher Policy
4. ID Badge Policy
5. Educational Assistance and Training Policy
6. City Vehicle Use Assignment and Purchase Policy
7. Smoking Policy
8. Domestic Violence Policy
9. Telecommunications Systems Use Policy
10. Safety Policy
11. Personnel Records

The HR Department will continue to update policies and procedures throughout the year.

Prior Year Comments - Unresolved

Police Details

Comment

Our prior year management letter identified that subsequent to fiscal 2014 year end, the City's Information Technology Department developed a new billing and collection system for police details that is fully integrated with the police detail scheduling and payroll systems of the City. The remaining step was to integrate the system with the general ledger.

As of the date of this report, the police details billing and collection system is not integrated with the general ledger.

Recommendation

We recommend the City evaluate the cost/benefit of integrating the police details billing and collection system with the general ledger.

Management's Response

During CY 2017 the City will begin investigating the cost/benefit of moving to new automated financial management/HR software, with fully integrated modules for tax; utility billing, and miscellaneous receivables (police details).

Investment Policy for Certain Trust Funds

Comment

Our prior year management letter identified that certain trust funds maintained by the City were not governed by formal investment policies.

As of the date of this report, formal investment policies for these trust funds have not been developed and implemented.

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

The City established an Investment Advisory Committee during CY 2016 and the Committee is expected to examine this issue in the near future, once work is complete with the Rainy Day Stabilization Fund investment policy.

Current Year Comments

Personnel/Payroll

Comment

We performed various tests related to personnel forms and payroll of non-School employees. Our testing focused on the following:

- New Hires:
 - Employee information is entered in the payroll system based upon approved documentation (i.e., Personnel Action Form or PAF)
 - PAF is approved prior to employee's hire date and prior to employee being entered in the payroll system
 - Employee personnel file contains approved documentation to determine the proper pay code/account is being charged to the general ledger
 - Recalculate and reconcile gross pay per payroll journal to pay rates per PAF forms
- Departmental Transfers:
 - Employee information is entered in the payroll system based upon an approved PAF
 - PAF is approved prior to the transfer date listed on the PAF
 - Employee personnel file contains approved documentation to determine the proper pay code/account is being charged to the general ledger
 - Recalculate and reconcile gross pay per payroll journal to pay rates per PAF forms
- Terminations:
 - PAF is approved prior to the last day of employment
 - Terminated employees' system access rights are appropriately and timely removed

The following is a summary of our testing results:

- New Hires – Twenty (20) new hires were tested and we identified the following:
 - Two (2) instances – PAF was approved subsequent to the hire date listed on the PAF
 - One (1) instance - PAF did not include the employee's date of hire
 - One (1) instance – The pay rate on the PAF did not agree to the pay rate entered into the payroll system and paid for the employee's second pay period after hire. This was subsequently corrected.

- Departmental Transfers – Ten (10) transfers were tested and we identified the following:
 - Three (3) instances - PAF was approved subsequent to the transfer date listed on the PAF
 - One (1) instance - PAF did not include the employee's date of transfer
 - One (1) instance – A PAF was not on file and could not be provided
- Terminations – Ten (10) terminations were tested and we identified the following:
 - Seven (7) instances – PAF was approved subsequent to the termination dates listed on the PAF
 - One (1) instance - The employee's last date worked and date of termination had not been entered into the payroll system at the time of our testing

Recommendation

We recommend procedures (including increased supervision and review) be implemented to address the matters identified in our testing.

Management's Response

The FY2017 budget included the addition of a position entitled "Manager of Payroll and Benefits". We are in the process of identifying a candidate for this position. One of this person's responsibilities will be the implementation of policies and procedures to strengthen our performance in this area.

Stormwater Billings

Comment

The City charges stormwater fees to taxpayers that use the City's sewer system. During our current year evaluation of the controls over water, sewer and stormwater utility billings, we identified an instance in which a taxpayer not using the City's sewer system (i.e., using septic) was being billed for stormwater services. Our inquiries and observations of the Utilities Department indicated that the taxpayer brought it to their attention, at which time they abated the fees charged and updated their billing system.

However, the Utilities Department does not have procedures in place to perform periodic reconciliations to ensure that only City sewer customers are being billed for stormwater.

Recommendation

We recommend the Utilities Department implement procedures to perform periodic reconciliations to ensure that only City sewer customers are being billed for stormwater.

Management's Response

Our department is aware of the discrepancies related to billing for the storm water fee that was raised by our auditors. We are in the process of auditing all accounts to ensure they are being accurately charged and meet the guidelines set by City ordinance. It will be DPW's policy to conduct an audit of this each year when preparing the storm water budget, thus ensuring that all accounts are being charged correctly.

Implementing Employee Agreements

Comment

Based on inquiry procedures, we identified that after a new Collective Bargaining Agreement was signed with Fire Department employees, a payroll was issued that included pension deductions for non-pensionable wages. This was subsequently corrected.

Prior to the implementation of any employee agreement, all payroll clerks and department heads should be provided with a copy of the new agreement. In addition, the Human Resources department should meet with all departmental payroll staff and the Retirement Board staff to review the pertinent aspects of the agreement. These procedures would enhance the successful implementation of new agreements, including payroll considerations.

Recommendation

We recommend management develop a standard process for implementing employee agreements, to include payroll considerations.

Management's Response

This is yet another area that we expect to improve dramatically with the hiring of the Manager of Payroll and Benefits.

Municipal Modernization Bill

Comment

In August 2016, the Commonwealth of Massachusetts signed into law the Municipal Modernization bill aimed at enhancing the partnership between the state and municipal governments, while granting more local control and encouraging fiscal efficiency.

The new law focuses on four specific goals:

- Eliminate and update obsolete laws
- Promote local independence
- Streamline interactions between municipalities and the state
- Provide municipalities with greater flexibility to do their jobs on a day-to-day basis

Most of the changes outlined in the bill were effective on November 7, 2016. Many of the changes relate to municipal finance.

Recommendation

We recommend management implement a plan to promote, document and monitor compliance with the Municipal Modernization bill amongst all City departments.

Management's Response

The Comptroller has provided members of the Finance Committee of the City Council with a summary of the new laws and is scheduled to meet with the Committee for a brief discussion of the changes on Monday, January 9, 2017.