

**CITY OF WALTHAM, MASSACHUSETTS**

**MANAGEMENT LETTER**

**JUNE 30, 2018**



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Management  
City of Waltham, Massachusetts

In planning and performing our audit of the financial statements of the City of Waltham, Massachusetts (City) as of and for the year ended June 30, 2018, 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 deficiencies in internal control (other than significant deficiencies and material weaknesses) that are opportunities to strengthen your internal control and improve the efficiency of your operations. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated January 29, 2019, 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 recommendations with 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 City Council, and others within the City, and is not intended to be, and should not be, used by anyone other than these specified parties.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Boston, Massachusetts  
January 29, 2019

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## Comments and Recommendations

### Information Technology

#### Comment

We identified the following during our assessment of the City's information technology systems:

#### Information Security Program

The City has documented an Information Security Program; however, the following policies / plans have not been formally established:

- Incident Response
- Disaster Recovery / Business Continuity
- Vendor Management
- Change Management
- Employee Handbook

#### Password Policy Network and Information Security

The City's settings for required password criteria, minimum password age, password history, account lockout, and initial default password change settings do not meet leading practice guidelines.

#### Network Access

The following areas were identified related to risk of access to the City's Network:

- The City does not technically restrict the use of USB storage devices on workstations.
- The City's server rooms are not monitored by video surveillance.
- The City does not formally perform a review of users and access to the network / applications on an annual basis at minimum.

#### Recommendations

We recommend management consider establishing Information Security Standards to protect the City and its employees from exposure to risks involving inappropriate distribution or release of confidential information that could result in potential legal issues. The City should establish the following policies / plans:

- Incident Response
- Disaster Recovery / Business Continuity
- Vendor Management
- Change Management
- Employee Handbook

We recommend management consider updating required password criteria and account lockout settings to leading/best practice guidelines.

We recommend management consider the following: restricting the use of USB storage devices, which would reduce the risk of malware entering the network as well as potential loss of confidential and non-public information; implementing video surveillance in the server rooms to monitor for inappropriate or unauthorized access; and perform periodic reviews of network and application user accounts to validate that accounts are only assigned to active employees.

### Management's Response

Our Department continues to carefully review and stay current with the practices, services, and products designed to raise the level of security and data protection in the city. We are in agreement with the auditor's summary analysis and observation concerning security and data protection and will work towards higher levels of protection and methods. Although the threats continue to raise their level of sophistication, I understand it is our responsibility to concentrate on these threats and provide whatever is necessary with the resources available to properly protect our network and system data.

It is our 2019 goal to review the recommendations and seek practical and affordable methods to identify and address any shortcomings in the following areas:

- Incident Response
- Disaster Recovery / Business Continuity
- Vendor Management
- Change Management
- Internal Departmental Documentation

Those threats are ever changing and increasing in sophistication and complexity. We concur with the opinion(s) and continually seek methods, practices, and financial resources to mitigate the city's exposure. Experts involved in the discussion and profession would agree the threats are measurably real and there are varying degrees to the span of efforts and resources available to effectively protect network data against such threats.

The items outlined in the report are key issues that are continually discussed and addressed in the I.T. Department efforts and financial planning.

The Mayor's recent Capital Improvement Plan seems to present evidence that Data protection and security are highly considered and future financial plans include our recommendations. Although we could always use more resources for network and data security, we continue to improve by applying appropriate attention and solutions to defend and protect our city data. We agree in spirit to the reports observations and will continue to work with the city resources provided.

It is our goal that in the next audit, these items will be appropriately address and provide ample effort to reach the audit's recommendations.

## **Procurement and Invoice Approval Process**

### Comment

#### OMB's Uniform Grant Guidance Procurement Requirements

The City currently does not have written procurement policies. The standards set forth in 2 CFR 200.318, *General Procurement Standards*, require that the non-federal entity use its own documented procurement procedures which reflect the applicable state, local, and tribal laws and regulations, and your procurements must conform to federal law. In addition to several other required elements for the written documentation, the non-federal entity must use of the five allowable procurement methodologies: Micro-purchase, small purchase, sealed bid, competitive proposal, noncompetitive proposal (sole source).

#### Emergency Purchase Order (EPO)

The City currently utilizes an EPO for purchases under \$1,000. The EPO is required to be completed and approved prior to purchase. We selected a sample of 15 purchases under the EPO limit of \$1,000 and identified 12 instances where the purchase occurred prior to the approval of the department head. In addition, of those 12 instances, 6 were initiated and processed after the purchase.

The current EPO process is administratively burdensome and provides no control over disbursements when the EPO is initiated and processed after the fact.

#### Blanket PO's

We identified several blanket PO's (where quotes were obtained) that were subsequently increased in an amount not in excess of the 25% limitation set under Massachusetts Procurement Law. However, when the amount exceeded the 25% threshold a new PO was issued based on the same quotes provided for the first blanket PO. The Massachusetts Procurement Law requires new quotes to be obtained. In addition, under the current process, the City is susceptible to unintended procurement splitting.

#### Invoice Approval Process

The current process for approval and payment of invoices is as follows: (1) Department Head reviews and approves; (2) invoices are submitted to Purchasing Office for review, comparison to issued purchase order (PO) and approval; (3) invoices are submitted to Mayor for final review and approval (4) invoices are then submitted to City Auditor's office for payment processing.

We identified several instances where the Purchasing Office made significant changes to amounts included on original invoices that were previously approved by a Department Head. Although it is not uncommon to make minor corrections/alterations for what the City believes to be errors, significant changes should be required to be sent back to the Department Head and ultimately the vendor to produce an updated original invoice. In addition, the current process of approving invoices is overly burdensome as it requires four separate steps.

### Recommendation

We recommend management develop and implement a documented procurement manual that conforms to 2 CFR 200.318, *General Procurement Standards*.

We recommend management consider eliminating the use of EPO's to reduce non-essential administrative functions. The use of blanket PO's for anticipated services should be used to effectively monitor budgets and to eliminate the need for unanticipated expenditures.

We recommend that once a purchase order is liquidated and services are still required, that a new procurement be performed to comply with the Massachusetts Procurement Law.

We recommend invoices received from vendors that contain multiple errors be sent back to the vendor to reproduce an accurate invoice.

We recommend the management re-evaluate the current invoice approval and payment process and consider changes that could be made to enhance efficiencies.

## **Police and Fire Detail**

### Comment

Consistent with prior years, the police and fire detail fund has a deficit fund balance totaling approximately \$94,000 (net of outstanding accounts receivable). When the police and fire detail fund is in deficit, it is typically an indication that one or more of the following events has occurred and gone undetected and/or unresolved:

1. Billing error
2. Accounts receivable were written off without a funding source (i.e., the general fund)
3. Revenue or expenditure posting errors

### Recommendation

We recommend the City determine the cause of the current deficit and take corrective action, which may only require an adjusting entry to reclassify incorrect postings of activity. However, corrective action may also require the deficit to be funded by available funds.

We recommend procedures be implemented to reconcile the police and fire detail fund balance deficit to the detailed accounts receivable balances monthly.

### Management's Response

After review, the City has determined the deficit in the Police and Fire detail fund was caused by the abatement of receivables over multiple years without a designated funding source. As of the beginning of fiscal year 2019, the City Auditor's Office instituted a revised abatement form for details which require the Police and Fire Departments to indicate the reason for the abatement and to provide an account from which the abatement will be funded. The City will continue its reconciliation process for the activity in this fund on a monthly basis and to use the revised abatement form to prevent further growth of the deficit in the fund.



## **Financial Policies and Procedures Manual**

### Comment

We believe that preparation of a formal policy and procedures manual would improve and standardize the City's financial policies and procedures. Inherent in any organization that operates without formalized written procedures are inconsistencies in everyday policies and procedures. The number of such inconsistencies can be minimized by the written codification of policies and procedures and insistence on adherence to them.

Such a manual should include policies and procedures relative to all financial functions and processes, including, but not limited to, the following:

- Cash receipts
- Cash disbursements
  - Payroll
  - Vendor
- Procurement
- Budget
- Grants administration
- Capital assets
- Month-end and year-end closing
- Month-end and year-end reporting

The manual 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.

### Recommendation

We recommend management develop and implement a formal financial policies and procedures manual.

### Management's Response

The City Auditor's Office completed a draft of formal financial policies. The draft policies have been recognized by Standard and Poor's as a positive credit factor during its rating review when the City has issued short term notes and long term bonds.

The City Auditor's Office has initiated the preparation and will continue to refine its procedures manual through the compilation of written policies and steps for certain tasks, such as payroll processing, warrant processing, etc.

The City Auditor's Office has recently partnered with the Bentley Service-Learning and Civic Engagement Center to participate in a new internship program. We have engaged a student to assist us with formalizing the department's financial policies and procedures manual. The City Auditor's Office expects to complete the draft manual by the end of FY2019.

The City will continue to make other departments aware of the audit comment and encourage participation for the creation of a procedures manual for their department's functions.

