

CITY OF WALTHAM, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2019



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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, 2019, 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 December 30, 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
December 30, 2019

CITY OF WALTHAM, MASSACHUSETTS

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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:

- Disaster Recovery / Business Continuity
- Vendor Management
- Change Management

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'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:

- Disaster Recovery / Business Continuity
- Vendor Management
- Change Management

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

- Maximum password age to 180 days.
- Lockout attempt threshold on 10 attempts (five attempts for best practice)
- 10 - 14 characters in length (best practice)
- Require re-authentication after 15 minutes of inactivity via password protected screen saver. (best practice)

We recommend management consider the following: implementing video surveillance in the server rooms to monitor for inappropriate or unauthorized access; and perform and document periodic reviews of network and application user accounts to validate that accounts are only assigned to active employees.

Management's Response

After completing the annual I.T. Audit process this past Fall 2020, I believe our department continues to move forward on each of the area addressed in the Comments and Recommendations. We truly appreciate the benefits of the review and the process that assisted us in identifying opportunities for improvement. We expect to adopt and address each of the audit's concerns completely in the next few months. All of the remaining comments and recommendations are in process in an attempt to comply.

I would like to respond by listing each remaining "comment and recommendation" and providing a summary status of the progress. Please see the following:

In the category of Information Security Program:

1. The I.T. Department is completing a process of using current documented practices outlining Disaster Recovery/Business Continuity, Vendor Management, and Change Management to a finalized single source document to present to the Mayor to be considered a formal city policies and plans. As of February 18th, 2020, we are not yet complete with that process but expect by sometime in April 2020 to have that document before the Mayor.

In the category of Password Policy Network and Information Security:

1. Leading up to and throughout the Fall 2020 Audit, we have implemented modifications and adjustments to our password policies to bring them more current to best practices recommendations. It is own plan to implement the following practices as of March 1, 2020:
 - a. Maximum password age to 180.
 - b. Lockout attempt threshold on five attempts
 - c. 10 Characters in length.
 - d. ** We are researching the ability to exclude individual users (ie: 911 operators, Service desk locations in various departments, etc., before requiring a re-authorization after 15 minutes of inactivity via a password protected screen saver. However, it is our intention to have the vast majority of network users to conform to the recommended re-authorization after 15 minutes of inactivity.

In the category of Network Access:

1. We are working with surveillance specialists/vendors to provide video surveillance and review at the following locations:
 - i. Data Center in City Hall (part of a grant program)
 - ii. Two Data Closets in Government Center
 - iii. One Data Closet at Muni Center.
2. We have altered our department practices to include a yearly user account review and verification of the following systems:
 - a. Our Windows Network users
 - b. Munis-Payroll and H.R.
 - c. Govern Software-Revenue and Operational units
 - d. Patriot-Assessors data
 - e. Softright-G/L and A/P applications
 - f. QED-Computer Aided Dispatch
 - g. ABACUS-Law Department Admin Application
 - h. We continue to identify other applications.

In addition to the above, the I.T. Department will look to the CIP budget process or a supplemental request for funding for a network Multi Factor Authentication solution. Many organizations are using products to provide multi-layered authentication of users with great success. They are typically licensed based and come with recurring expenses.

With respect to the audit recommendations, it is the I.T. Department's goal to satisfy all recommendations by the end of June 2020 (many before June) and begin a new fiscal year in compliance with all of the auditor's comments and recommendations.

Student Activity Funds

Student Activity Fund Reporting

We reviewed the student activities fund maintained by the High School and identified the following:

1. We were unable to tie the account listing of individual activity fund balances to the reconciled student activity fund checking and agency bank account ending balances. Lack of this reconciliation does not provide assurance that all student activity fund activities has been recorded properly.
2. Six individual student activity funds appear to be in a deficit position at June 30, 2019.

Compliance with MGL Chapter 71, Section 47

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 (internal or external) or agreed upon procedures is not being performed since 2015 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.

Recommendations

We recommend that procedures be implemented to reconcile the total individual student activity fund balances to the total book balances of the checking and agency bank accounts.

We recommend that the City investigate the deficits referred to above and resolve accordingly. We also recommend that procedures be implemented to prevent future deficit spending in any individual student activity fund.

We recommend the City comply with the requirements of MGL Chapter 71, Section 47 by having annual audits or agreed-upon procedures performed on each school’s student activity funds.

Management’s Response

In July 2019 a new Waltham High School Fundraising Coordinator / Student Activity Treasurer was hired, and in addition to this change in leadership a new accounting program for the Waltham High School Student Activity Fund was implemented. That being said, during this transition the account listing of individual activity fund balances was not maintained timely and so did not reconcile with the bank account ending balances.

Additionally, it was brought to the leadership’s attention that six individual student activity funds reflected a negative balance. The Student Activity Treasurer investigated these individual accounts, and made adjustments to eliminate the negative balance; e.g. (4) of the funds were closed out to other related funds and the other (2) fund deficits were offset by subsequent funds raised for that particular activity.

Going forward, procedures have been implemented where each month the total of the individual activity fund balances reconciles with the reconciled month end bank balances.

Additionally, the Student Activity Treasurer has implemented a practice of sending out confirmations to each of the activity/club supervisors for each transaction processed with the adjusted activity/club fund balance. This provides another layer of reconciliation for each individual activity/club fund balance, and will eliminate the possibility of overspending an individual activity/club's balance.

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 that is required to be completed and approved prior to purchase. The current EPO process is administratively burdensome and susceptible to services rendered/goods purchased prior to an EPO being initiated and approved.

Purchase Orders (PO)

We selected a sample of 22 purchase orders to test the compliance with procurement policies in place and noted 3 instances where the goods or services were incurred prior to the initiation of the purchase order process.

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. 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 review controls over the approval of invoices prior to the initiation of the purchase order process.

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

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

Management's Response

1. The Auditor Recommends that *"management develop and implement a documented procurement manual that conform to 2 CFR 200.318, General Procurement Standards".*

Response:

What must be determined and must be subject to more reviews and comments is whether City Ordinances and State laws are in effect policies and whether the well-established procurement statutes sufficiently comply with 2 CMR.318. Are state laws and a city ordinance also policies and do they mirror the Federal Procurement Standards?

CMR 200.318 (a) *"The Non-Federal entity must use its own documented procurement procedures which reflect applicable State laws"*. The City's procurement process, as it is required by State laws, is well documented and carefully followed in every instance. The following link, MGL Ch. 30B manual, represents the best and most complete procurement policies for the procurement of goods and services that fully complies with 2 CMR.318. This is the City's procurement manual!

<https://www.mass.gov/download-oig-public-purchasing-and-public-construction-manuals>

As a summary, for the procurement of goods and services with a value of \$50,000 or more (the city issues between 75 and 80 public sealed bids per year), the city follows the line by line procedure in the MGL Ch. 30B which involves:

- Sealed Bids or proposals (MGL Ch. 30B §§ 5 or 6) due at a specific and advertised date, time and place
- Specifications are made clear, in the bid document or proposal, as to the final product or service required and accepted by the city.
- Conditions of the bid and instructions to bidders are provided
- Notices of the bid/service are posted no less than two weeks prior to the bid due date in the 1) Commonwealth's Goods and Service bulletin or Central register; 2) the city's web site; 3) the Commonwealth's COMMBUYS portal; 4) the public bulletin board at city hall and 5) a personal invitation to bid is sent to all vendors who have expressed an interest in the product/services that have registered or are listed in the City's database.
- Changes in the bid/services are formally communicated to all interested parties via addenda which are also distributed and posted no less than 48 hours before the bid opening date and time.
- The bid opening is a public event and it is almost always attended by the interested parties, city departments and sometime the public.
- A record of the bid opening is created and signed by no less than one additional witness. The bid opening record includes names of bidding companies, pricing, ascertaining compliance with the conditions of the bid and the determination of the offer made by the responsive and responsible bidder offering the best price and value (MGL Ch. 30B §§5-6)
- In addition to the purchasing department bid results are reviewed by the department receiving the goods/service, references are checked, and an award is made pending the availability of funds.
- A contract is executed by the Mayor and the vendor. A purchase order is then issued.

For the procurement of goods and services with a value between \$10,000 and \$50,000 under the rules of MGL 30B § 4.

- The City seeks written quotations from no fewer than three companies customarily providing the supply or service. The procurement officer shall record: (1) the names and addresses of all person from whom quotations were sought, (2) the product/service description used for the procurement, (3) the names of the persons submitting quotations and (4) the date and amount of each quotation.
- The contract is awarded to the responsible person offering the needed quality of supply or service at the lowest quotation.
- A contract is executed by the city and the vendor. A purchase order is then issued.

A procurement in the amount of less than \$10,000 is obtained through the exercise of “sound business practices”.

- The City department is required to shop for best value
- Obtain from the vendor a copy of a quote, estimate or proposal

2. The Auditor Recommends that *“management review controls over the approval of invoices prior to the initiation of the purchase order process”.*

Response:

The recommendation is too vague and general; noting the elimination or addition of more specific steps would have been helpful. Controls are in place in the approval of invoices. Here is the current invoices approval process:

- a. Following the approval of a PO and the receipt of goods or services
 - b. An invoice is received by the department
 - c. The department certifies the receipt of the product or service via a signature on the invoice or by filling out a receiver form.
 - d. The department head checks the invoice for accuracy
 - e. The invoice is approved for payment by the department head
 - f. It is then received by the purchasing department
 - g. Where it is checked again against the PO for accuracy
 - h. Invoice errors are corrected by either the department or purchasing
 - i. Invoices are approved by the purchasing agent and
 - j. They are sent to the Mayor for final approval
3. The Auditor Recommends *“Eliminating the use of the EPO to reduce nonessential administrative Functions. The use of blanket POs for anticipated services should be used to effectively monitor budgets and eliminate unanticipated expenditures”.*

Response:

The EPO process is certainly not at all assuring of tight controls. It is however a recorded process that is convenient and very helpful to the departments when an immediate purchase must be made with a value of under \$1,000. Expediency and convenience were more of importance when House Bill 4419 was passed a few years ago amending the provision for small procurements to make them simpler by “exercising sound business practices”. House Bill 4419 and Federal procurement of 7 CFR 226.22(i)(1) achieve the same simplification objective.

The elimination of the EPO does not necessarily reduce administrative work. It will shift the same administrative work to the blanket PO process. I do not recommend streamlining in this case. In fact, shifting to the blanket PO process will likely create more administrative work when, for example, a single purchase will be required in the amount of \$75.00 with a one-time vendor. The city has many such purchases with vendors that supply the city infrequently (baking supplies, ropes, door glass installation, gavel engraving, etc.). In this case, a PO would have to be produced which will require three signatures making the purchase lengthier and equally cumbersome.

The solution with the current EPO situation is greater enforcement of the rules that are now in place. The most important of these rules being that no goods or services shall be received until the EPO is approved. My recommendation is to focus on this step as opposed to the introduction of a significant change.

The City has been using blanket POs whenever an expense is anticipated to be recurring, for the same product or service, with the same company. For example, blanket POs are in place for the purchase of Auto supplies, Landscape supplies & materials, Paint, Signs & decals, Electric supplies, Plumbing supplies, Recreation supplies and many more are being produced every week.

4. The Auditor Recommends that *“management re-evaluate the current invoice approval and payment process and consider changes that could be made to enhance efficiencies”*

Response:

City officials have a fiduciary responsibility to the public to assure the proper expenditure of funds and resources. The public trust is placed upon elected and appointed City officials to introduce proper controls where hundreds of millions of dollars are spent each year on behalf of the city tax payers. Because of the large sums involved in municipal government redundant controls are necessary. At the expense of efficiency, the layered “checking-the-checker” system is necessary and well accepted by the public in the knowledge that there is more than one person looking over the assets acquired with tax revenue.

Some streamlining would be possible, in this case, without diminishing accountability. The city Auditor approves both the PO and later the municipal payment of the City debts by signing the Municipal warrant.

As such the disbursement of the funds and payment of the city’s indebtedness is approved, by the City Auditor, two times: once by approving the PO and the other by the approval of the warrant. This redundancy could be streamlined by the City Auditor approval of the debt one time at the city warrant stage.

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 formal financial policies document. The policies address the City's overall financial goals and include the following items: an operating budget policy, a revenue policy, an expenditure policy, a reserve policy, a capital budgeting & planning policy, a debt management policy and a protection of credit rating policy. The policies continue to be 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 continues to refine its procedures manual through the compilation of written policies and steps for certain tasks, such as payroll processing, warrant processing, etc.

In addition, the City Auditor's Office completed a partnership with the Bentley University Service-Learning and Civic Engagement Center through their internship program. The City Auditor's Office engaged the services of a graduate student to assist with formalizing the department's procedures manual. The draft manual has been completed and is being reviewed by the City Auditor's Office for formal adoption.

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.

Fiduciary Activities (Informational Only)

Comment

In January of 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 84, *Fiduciary Activities*, which establishes new criteria for identifying and reporting fiduciary activities of state and local governments. The criteria generally focuses on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom the fiduciary relationship exists.

Activities meeting the criteria will be required to report (1) a statement of fiduciary net position and (2) a statement of changes in fiduciary net position in one of the following four fiduciary fund types in the basic financial statements:

1. Pension (and Other Employee Benefit) Trust Funds
2. Investment Trust Funds
3. Private-Purpose Trust Funds
4. Custodial Funds

Furthermore, agency funds will no longer be reported and activities that do not meet the new fiduciary fund criteria will be reported as resources of the government.

Any changes in activities adopted to conform to the provisions of GASB Statement No. 84 will require a restatement of beginning net position/fund balance.

The City's required implementation date is fiscal year 2020.

Recommendation

We recommend management familiarize itself with the requirements of GASB Statement No. 84 and prepare for its implementation.

Management's Response

Management agrees and will review GASB Statement No. 84.

Lease Accounting and Financial Reporting (Informational Only)

Comment

In June of 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which establish new financial reporting requirements for governments that enter into lease contracts.

The implementation of this Statement will represent a significant change in the accounting and financial reporting of leased assets, as well as lease liabilities. The implementation of this statement requires:

- Leases previously classified as operating leases to be recognized as lease assets or lease liabilities.
- Lessees to recognize a lease liability and an intangible right-to-use lease asset.
- Lessors to recognize a lease receivable and a deferred inflow of resources.
- Expanded note disclosures.

The City's required implementation date is fiscal year 2021.

Recommendation

We recommend management familiarize itself with the requirements of GASB Statement No. 87 and prepare for its implementation.

Management's Response

Management agrees and will review GASB Statement No. 87.

