

CITY OF WALTHAM, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2020



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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, 2020, 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 26, 2021, 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 26, 2021

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:

Password Policy Network and Information Security

The City's settings for required password criteria, maximum and minimum password age, and account lockout settings do not comply with the City's Written Information Security Policy (WISP).

Network Access

While the City runs a review of network and application access, a formal periodic user access review is not performed in accordance with the Periodic Access Review Policy. In addition, it was noted that one terminated employee with active user rights was intentionally maintained for department reporting purposes and access rights should be moved to an active employee.

Operating Systems

It was noted that several instances of Windows 7 OS and Windows Server 2003 and 2008 still in use. These operating systems are no longer supported by the vendor as of January 2020. We did note that the City is aware of these out of date operating systems and is currently in the process of updating devices to the latest versions.

Network Vulnerability Assessment

An internal network assessment was performed by a third party in August of 2019, however this assessment did not include a scan of external vulnerabilities to identify exploitable vulnerabilities and attack vectors from outside of the City's network. In addition, social engineering assessments should be considered in the assessments to provide employees an opportunity to refine their security awareness in a simulated attack.

Recommendations

We recommend management update the network password configurations to comply with the WISP.

We recommend implementing formal documented user access review process documentation to ensure compliance with City policies and to determine whether terminated users access has been removed from the network and City applications and whether active users access is appropriate based on their job responsibilities.

We recommend that all operating systems be updated and patched to the latest version that is supported by the vendor. When an operating system reaches "end-of-life", it is likely that the vendor no longer issues patches for security vulnerabilities.

We recommend that regular external vulnerability/penetration tests be conducted on an annual basis to identify vulnerabilities and attack vectors. The tests should include a full scope of blended attacks, such as wireless, client-based, and web application attacks, addressing critical systems in a non-production environment. These attacks can also include some social engineering element such and email phishing tests for all City staff.

In addition, for identified vulnerabilities and risks from the assessment, there should be a formal corrective action plan in place to remediate system critical/high vulnerabilities.

Management's Response

Password Policy Network and Information Security

The I.T. Department continues the process of reviewing the WISP and our internal policies to make adjustments where appropriate. The WISP was created to seek the ideal policies and practices to protect systems and data. Through to budget processes and internal efforts we continue to strive for the perfect environment.

Operating System

A capital funding request was approved, and our department deployed over 250 new computers with Windows 10 to replace the outdated desktops.

Operating System

The transition of the termination employee user account was completed and the employee's account has been disabled.

Network Vulnerability Assessment

Our department will be seeking proposals and funding for a scan of external vulnerabilities and social engineering assessments. It is important to note, during our fiscal 2020 period, we did implement, with a professional vendor, an email cybersecurity training program to educate user population about the dangers of social exploits and how to avoid them. We continue to improve upon the program and feel the program will continue to provide benefits.

It is the department's intention to resolve all of the remaining audit recommendations. I believe we have at least partially addressed each concern and will continue those efforts. We continue to update all our policies and remain committed to the audit recommendations.

Student Activity Funds

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 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

Waltham School Committee Policy JJF states that ‘Student Activity Checking Accounts shall be audited annually in accordance with DESE guidelines.’ and ‘For accounts with maximum balance limits that exceed \$25,000, the School Committee shall consider, in accordance with DESE guidelines, that an audit be conducted by an outside audit firm every three years.

In compliance with this policy, internal audits are annually conducted by the School Business Office on all student activity funds. Additionally, student activity accounts were examined by the independent auditor during the performance of the City’s FY 2019 independent audit. In further compliance with the policy, an outside audit, exclusively for student activity funds, was not required for FY 2020.

Notwithstanding the current policy, for FY 2021 and thereafter, the scope of services for the annual independent audit will include the annual audit of the student activity funds as stated in MGL, Chapter 71, Section 47.

Procurement Procedures

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).

Purchase Orders (PO)

In response to the prior year findings noted, selected a sample of 10 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.

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.

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. However, due to the COVID-19 pandemic, the Governmental Accounting Standards Board (GASB) issued Statement No. 95 *Postponement of the Effective Dates of Certain Authoritative Guidance* which extended the effective date of this standard one year.

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. However, due to the COVID-19 pandemic, the Governmental Accounting Standards Board (GASB) issued Statement No. 95 *Postponement of the Effective Dates of Certain Authoritative Guidance* which extended the effective date of this standard one year.

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.

