

CITY OF WALTHAM, MASSACHUSETTS

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2015

Honorable Mayor and City Council
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, 2015, 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. We also want to make you aware of a recently issued accounting standard that will significantly impact your financial statements in future years. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated December 22, 2015, 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

Boston, Massachusetts
December 22, 2015

CITY OF WALTHAM, MASSACHUSETTS

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Comments and Recommendations

Information Technology

Comment

Application Administration

The administration of the City's applications, including MUNIS and Softright, is not clearly defined from those individuals with the responsibility for processing business transactions. Additionally, we identified that a default delivered account is used by a limited number of users for certain administrative functions in MUNIS. The use of shared accounts and business users to perform administrative functions increases the risk that unauthorized transactions could be processed and go undetected.

Vulnerability and Penetration Testing

With the growing focus on the security of personally identifiable information (PII) and personal health information (PHI) for both employees and taxpayers, it is imperative that information systems are properly secured. We identified that the City has never had a third party vulnerability and penetration test performed.

Recommendation

We recommend the City evaluate its current application administration process to determine opportunities to remove IT administration functions from the business user and enforce the use of individually assigned accounts for IT administration.

We recommend that the City evaluate the effectiveness of its security information program. Specifically, we recommend that the City assess the strength of its internal and external networks by performing independent network vulnerability and penetration tests. Also, to determine the efficiency of the security education program, we recommend the City perform social engineering exercises to determine employees adherence to security practices.

Management's Response

In an effort to provide a thoughtful response to the comments and recommendations contained in the audit report, I offer the following. Our I.T. Department, much like other I.T departments, is aware of outside vulnerabilities and is in agreement with the auditor's interest and observation concerning the security of Personally Identifiable Information (PII) and Personal Health Information (PHI) for both employees and taxpayers. 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. Most involved in the discussion and profession would agree that 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. There are two distinct points presented within the audit's I.T. comments. First, is the issue of shared usage of the "default delivered account" in Munis and the administrative functions authorized in Softright. The second item is the need for "third party vulnerability and penetration" testing and review.

With respect to the Munis shared account authorization, there are two influencing conditions that motivate us to provide the shared Munis and Softright accounts. First of all, the window of time available to process the School and City payrolls is very limited and provides almost no margin for error if the payroll is to be distributed on time. The City's approach to decentralized payroll processing also presents an environment where cooperation and trust with sensitive information is most important. Having cross trained individuals with access to sensitive data provides greater flexibility for trouble shooting errors in the payroll processing. Also, it is important to have management positions spread across multiple departments with quick access to the administrative functions. Although it is measured and we are never one hundred percent comfortable with multiple departments sharing sensitive data maintenance, we are cautiously comfortable with the individuals involved in the processes. Again, we do recognize and will continue to seek alternative methods to address the audit's concern.

There are also many areas of concern to be looked at when addressing network data protection and security. We continue to break down those areas into categories such as physical threats, unauthorized compromises, an inadvertent data corruption, outside attacks through email, internet activity, and deliberate attempts to penetrate and compromise our city's data. We are always struggling to find the proper balance. We have engaged in discussion and presented formal plans and solutions to eliminate many of the most common and obvious exposures to financial and personal data. As recently as last winter and early fall of 2015, we met with experts in the area of network and application data protection to develop strategies that have proven effective in other network and application landscapes. Together with that vendor resource, we presented a plan and funding request to the Mayor that will undoubtedly increase the protection to our city data. The Mayor's recent Capital Improvement Plan seems to present evidence that her priorities 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.

Cash Receipts

Comment

The City's general ledger and Treasurer's cash receipts module are maintained in separate accounting information systems. As a result, the City currently posts cash receipts to the general ledger monthly. The current condition inhibits the City's timely reporting of cash receipts.

Recommendation

Although two separate accounting information systems are maintained, the technology exists to integrate the systems. We recommend management consider the cost/benefit of integrating the Treasurer's cash receipts module and the general ledger to post cash receipts to the general ledger more frequently than once a month.

Management's Response

The City will consider the cost/benefit of integrating the cash receipts module and the general ledger. As an interim solution, during July 2015, the City Auditor's Office commenced the posting of the Treasurer's cash receipts twice a month to the general ledger to produce timelier reporting.

Police and Fire Detail

Comment

The police and fire detail fund had a deficit of approximately \$340,000 at June 30, 2015, (after applying accounts receivable totaling approximately \$269,000). 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

The City will contact the Police and Fire Departments to research the underlying cause of the deficit and consider the funding of the uncollectible portion of the deficit. The City will examine its reconciliation procedures for the activity of this fund.

Compensated Absences – Utilization of Payroll Module

Comment

Consistent with prior years, individual departments manually track and maintain accrued sick and vacation balances that are periodically reported to the Personnel Department. At fiscal year-end, the Auditing Department confirms the amount of unused sick and vacation balances for each employee within each department and compiles and calculates the compensated absence liability in an Excel worksheet. Although Excel is an acceptable automated software program and the controls surrounding the compilation of this information has been strengthened over the past several years, the City's payroll module has the ability to electronically track these balances. As of the date of this report, this functionality of the payroll module is not being utilized.

Recommendation

We recommend the City continue to evaluate the use of the payroll module to track sick and vacation balances earned and used by its employees to determine the cost/benefit of implementing its use versus the current use of the Excel worksheet.

Management's Response

Post June 30, 2015, the City Auditor's Office has initiated a course of action with the IT Department to utilize the MUNIS payroll module to track sick and vacation balances with the expectation to implement it during fiscal year 2016.

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

Post June 30, 2015, the City Auditor's Office has initiated the preparation to develop and implement formal financial policies with the expectation to enact it during fiscal year 2016.

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

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

Other Postemployment Benefits Accounting and Financial Reporting (Informational Only)

Comment

In June of 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, which establish new financial reporting requirements for governments that provide other postemployment benefits (OPEB) to its employees and retirees.

The implementation of these Statements will represent a significant change in the accounting and reporting of OPEB expense and the related liability. The implementation of these Statements will:

- Require the net OPEB liability to be measured as the total OPEB liability, less the amount of the OPEB plan's fiduciary net position
- Require that projections of benefits payments incorporate the effects of projected salary changes and service credits, as well as projected automatic postemployment benefit changes
- Require the use of the "entry age" actuarial cost allocation method, with each period's service cost determined by a level percentage of pay (referred to as the attribution method)
- Expand OPEB related note disclosures
- Expand OPEB related required supplementary information disclosures

Given the significance of the net OPEB liability, the financial reporting impact under the new standard will significantly affect the Town's financial statements.

It should be noted that the implementation of GASB Statement No.'s 74 and 75 are strictly financial reporting standards and do not constitute a state or federal mandate regarding the funding of the net OPEB obligation.

The Town's required implementation date of GASB Statements No. 74 and 75 are fiscal year 2017 and fiscal year 2018, respectively.

Recommendation

We recommend management familiarize itself with GASB Statements No. 74 and 75 to prepare for their implementation.

Management's Response

The City will familiarize itself with GASB No. 74 and No. 75 by reading the specific GASB, reading relevant articles and/or attending workshops on its implementation.