

TOWN OF STONEHAM, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2024



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Management
Town of Stoneham, Massachusetts

In planning and performing our audit of the financial statements of the Town of Stoneham, Massachusetts (Town) as of and for the year ended June 30, 2024, 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 Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 March 18, 2025, on the financial statements of the Town.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with Town 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 Town'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 Board of Selectmen and others within the Town and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
March 18, 2025

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Comments and Recommendations

Risk Assessment and Monitoring

Comment

The Town established its financial management team as part of the implementation of the financial policies and procedures manual in 2019. This team is tasked with the review of the effectiveness of internal controls, proposal of internal audits, and development of corrective action plans for citations in audit reports. However, the financial policies and procedures manual did not include a formally documented risk assessment program and the Town has not developed or implemented a risk assessment or monitoring program.

When internal controls are *initially* implemented, they are usually designed to adequately safeguard assets. However, over time, these controls can become ineffective due to changes in technology, operations, etc. In addition, changes in personnel and structure, as well as the addition of new programs and services, can add risks that previously did not exist. As a result, all municipalities must periodically perform a risk assessment to anticipate, identify, analyze and manage the risk of asset misappropriation. Risk assessment (which includes fraud risk assessment), is one element of internal control.

The risk assessment should be performed by management-level employees who have extensive knowledge of the Town's operations. Ordinarily, the management-level employees would conduct interviews or lead group discussions with personnel who have knowledge of the Town's operations, its environment, and its processes. The risk assessment process should consider the Town's vulnerability to misappropriation of assets. It should also address operations that involve heightened levels of risk. When conducting the assessment, the following questions should be considered:

- What assets are susceptible to misappropriation?
- What departments receive cash receipts?
- What departments have movable inventory?
- What operations are the most complex?
- How could assets be stolen?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could potential misappropriation of assets be concealed?
- What prior internal control issues could still continue to be problematic?

Once the areas vulnerable to risks have been identified, a review of the Town's systems, procedures, and existing controls related to these areas should be conducted. The Town should consider what additional controls (if any) need to be implemented to reduce risk.

After risk has been assessed, periodic monitoring of the identified risk areas must be performed in order to evaluate the controls that have been implemented to mitigate the risks. Since control-related policies and procedures tend to deteriorate over time, the monitoring process ensures that controls are fully operational and effective.

The Town has been working to complete the risk assessment and monitoring policy, and several departments including accounting, treasury, town administrator, and town clerk have completed their individual risk assessments. However, many other departments need to complete their assessments. The Finance team has created checklists to assist other departments in this process.

Recommendation

We recommend management continue moving forward to fully develop and implement a risk assessment and monitoring program.

Management's Response

The Finance Team has completed risk assessments for all their departments (accounting, treasury, town administrator, town clerk). The Finance Team has created checklists for the other departments in the Town, and the other departments will continue to work toward completing their individual risk assessments.

Information Technology

Comment

We evaluated the computer processing environment and general controls that help ensure the reliability of the business and financial systems that support the Town's business objectives and identified the following:

1. The IT security policies and procedures utilized by the Town for the governance of the IT environment have not been reviewed during the audit period and/or do not record management reviews and updates.
2. A full external and internal penetration test was not performed during the audit period to determine exploitable vulnerabilities and attack vectors.
3. The Town has not recently undergone an IT risk assessment. This presents the risk that vulnerabilities and threats the Town's network is exposed to will not be detected or prevented.
4. The Town has not developed a Disaster Recovery Plan and Business Continuity Plan.
5. The Town did not provide evidence for the following:
 - a. Backup schedule configurations
 - b. Inventory listing
 - c. Multi-factor authentication settings

Recommendation

We recommend the following:

1. Formally review, update, and approve IT security policies on an annual basis to ensure the organization is taking appropriate measures to protect against evolving cyber threats and that all employees are aware of their responsibilities in maintaining the security of the organization's systems and data. Additionally, the review date and reviewer should be included on each policy.
2. Evaluate the need for an annual external penetration test and vulnerability assessment to identify vulnerabilities and attack vectors at least on an annual basis.
3. Implement a formal process to have an IT Risk Assessment performed on an annual basis by either completing an assessment internally or utilizing an external third party that specializes in IT Risk Assessments.
4. Develop an organization-wide Business Continuity / Disaster Recovery Plan that outlines a disaster recovery team, team member roles, contact information, communication plans, evacuation plans, and alternate sites / short- and long. These plans should also be reviewed and tested at least on an annual basis.
5. Provide all requested documentation requested for the IT review to determine if additional vulnerabilities are present.

Management's Response

We acknowledge the need for formal IT policies. While we have policies in place, we will work diligently to document them comprehensively.

We contracted a vendor in FY2024 to conduct external and internal penetration testing. The first pass has been completed, and suggested improvements have been made to our infrastructure. We will conduct a second pass in FY2025 to test these changes.

We recognize the necessity of a formal IT risk assessment. We will investigate conducting a formal assessment and aim to complete it before the end of the year.

We are currently in the process of writing a formal Disaster Recovery Plan and Business Continuity Plan. We anticipate completing these plans in FY2025.

Informational Comment – New Accounting and Financial Reporting Standard (*Governmental Accounting Standards Board No. 101*)

Comment

The Governmental Accounting Standards Board (GASB) has issued Statement No. 101 related to compensated absences (accrued sick and vacation time, etc.). The Statement will become effective for fiscal year 2025.

The liability related to compensated absences is already reported in the Town's financial statements. However, Statement No. 101 adds some considerations in determining the liability by stating that the liability should be recognized for leave that is "more likely than not" to be used, paid, or otherwise settled. In accordance with the Statement, the Town will need to re-evaluate the liability in the context of "more likely than not", considering factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences.

Recommendation

We recommend the Town prepare for the implementation of GASB Statement No. 101 for fiscal year 2025. The Town should also maintain any historical information or other leave data used in developing its estimate of the year-end compensated absences liabilities.

Management's Response

The Finance team is aware of this upcoming GASB Statement No. 101 and will gather the necessary information for the June 30, 2025 audit.