

**TOWN OF STONEHAM, MASSACHUSETTS**

**MANAGEMENT LETTER**

**JUNE 30, 2018**





CliftonLarsonAllen LLP  
CLAconnect.com

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, 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 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 June 6, 2019, 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  
June 6, 2019

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## Comments and Recommendations

### Formal Policies and Procedures

#### Comment

##### *Financial Policies and Procedures Manual*

We believe that preparation of a formal financial policies and procedures manual would improve and standardize the Town'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
- Billing
- Procurement
- Invoice processing
- Debt issuance
- Grants administration
- Administration of student activity funds
- Payroll (i.e., hiring, deductions, changes, etc.)
- Month-end and year-end closing procedures

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.

##### *Investment Policy*

The Town does not have a formal, written investment policy. The policy should outline general investment objectives, authorized investments, and safekeeping and custody requirements. It should provide for strong internal controls for investment related activities as well as benchmarks for monitoring the success of the Town's investments.

##### *Employee Handbook*

The Town does not have a formal, written employee handbook outlining the Town's expectations of its employees. The handbook should include policies and procedures relative to all Town policies for employees including, but not limited to, the following:

- Town business policies
- Standards of conduct
- Technology and communication policies
- Compensation and benefits policies
- Procedures surrounding suspected or known fraudulent activity, such as a whistleblower policy
- Formal periodic review process for evaluating employee performance.

### Recommendation

We recommend management develop and implement a formal financial policies and procedures manual, an investment policy, and employee handbook.

### Management's Response

The Town has adopted and implemented a Fiscal Guidelines and Policies Manual effective May 1, 2019 which address all items in this comment except for an Employee Manual which is in the works and will be implemented when completed.

## **Risk Assessment and Monitoring**

### Comment

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.

### Recommendation

We recommend management develop and implement a risk assessment program to periodically anticipate, identify, analyze, and manage the risk of asset misappropriation. The risk assessment program should be formally documented and become part of the Town's financial policies and procedures manual.

We further recommend management develop and implement a monitoring program to periodically evaluate the operational effectiveness of internal controls. The monitoring process should be documented in order to facilitate the evaluation of controls and to identify improvements that need to be made.

Management's Response

The Town's Fiscal Guidelines and Policies Manual addresses these items. It also creates a Financial Management Team to maximize the effectiveness of financial practices and policies.

## 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 business objectives and identified the following:

1. An internal vulnerability test or an external penetration test has not recently been performed by an independent third party. This presents the risk of unauthorized access to the Town's network, systems, and data.
2. There are no formal IT policies in place. This presents the risk that information security and data management functions are largely tactical in nature and not adequately supported.
3. The password policies in place do not currently meet best practice. This creates a risk of unauthorized access to network resources due to weak, easily identifiable passwords.
4. The process of adding users is not formal. This presents the risk that unauthorized users may be given access to the Town's systems.
5. Lack of segregation of duties. This presents the risk of potential errors or unauthorized transactions in the Town's systems.

### Recommendation

We recommend the following:

1. The performance of an internal vulnerability assessment an external penetration test by an independent third party to identify potential areas of technical weaknesses to the IT environment. In addition, the Town should have a full scope IT General Controls Review performed to evaluate the effectiveness of the internal control structure of the IT environment.
2. Formal policies be developed to govern the IT department including, but not limited to, the following areas:
  - a. Vendor management
  - b. Physical and logical access
  - c. Change management
  - d. Data backup & storage
  - e. Information security incident response
  - f. Applications
  - g. Servers, workstations and network

The policies should be documented to reflect current practices, reviewed and updated by management on an annual basis, and communicated to appropriate employees.

3. Implementation of stronger and more complex password parameters. Password settings should be to the following:
  - a. Password length of 8 characters
  - b. Complexity enforced (Upper case, lower case, alpha numeric, special character)
  - c. Change frequency of 90 days enforced
  - d. Password history of 12-24
  - e. Minimum password age of 1 day
  - f. Invalid login attempts set to 5
  - g. Users be required to change their passwords based on the above parameters and the IT Director only be able to provide temporary reset passwords
4. User access should be done with a standard process that includes appropriate approvals of the level of access being granted.
5. Review processes and ensure compensating controls such as cross-departmental reviews are in place to mitigate lack of segregation of duties.

#### Management's Response

The Town will work to implement these recommendations in FY 2020.

## **Payroll and Vendor Bank Account Reconciliations**

### Comment

Formal bank account reconciliations are not performed for the payroll and vendor bank accounts. The Town currently relies on the bank's outstanding check reconciliation to serve as the Town's reconciliation. This process is deficient as some items included on the check reconciliation are not appropriate reconciling items for a bank account reconciliation.

### Recommendation

We recommend the Treasurer perform monthly bank account reconciliations of the payroll and vendor bank accounts.

### Management's Response

The Treasurer's office will examine the current reconciliation process of both the vendor and payroll accounts and will begin to clear checks in MUNIS on a monthly basis.

## **Departmental Turnovers**

### Comment

We identified many instances where copies of Departmental Turnover forms were not provided to the Town Accountant's office by the department submitting the Departmental Turnover to the Treasurer/Collector. The direct submission of the Departmental Turnover form to the Town Accountant's office at the time receipts are turned over to the Treasurer/Collector provides an independent source document for the Town Accountant to verify receipts entered into the Town's accounting information system by the Treasurer.

### Recommendation

We recommend that Departmental Turnover forms be provided directly to the Treasurer and the Town Accountant's office. The Town Accountant's office should verify all departmental receipts recorded in the general ledger to ensure appropriate support exists prior to final posting.

### Management's Response

In Fiscal 2019, the Town Accountant's office has started receiving turnover forms for departmental turnovers.

## **Procurement – Public Works**

### Comment

We selected a sample of 12 disbursements from the Department of Public Works that were subject to the Massachusetts Procurement Law (MGL Chapter 30B) and identified the following:

- Two instances where written quotes were not properly obtained for the purchase of three vehicles with purchase prices of approximately \$19,500, \$20,000, and \$40,000. Rather than requesting written quotes to be submitted by no fewer than three vendors as required by the Massachusetts Procurement Law, the DPW searched three online listings for each vehicle and used the online listings to negotiate lower prices at one dealership.
- One instance where services were procured for an emergency repair. However, there was no documentation (required by the Massachusetts Procurement Law) to support the emergency procurement.

### Recommendation

We recommend procedures be implemented that adhere to the Massachusetts Procurement Law, including the maintenance of appropriate sufficient supporting documentation.

### Management's Response

The May 2019 Annual Town Meeting approved funding for a shared Procurement Officer position to address these issues.

## **Purchase Order System**

### Comment

With the exception of the School Department, the Town does not utilize the accounting information system's (MUNIS) purchase order module. Use of the purchase order module would assist the Town monitoring available budgets as encumbrances would be recorded for approved purchase orders.

### Recommendation

We recommend that the MUNIS purchase order system be utilized for all purchases. Implementation of this recommendation will strengthen internal controls over cash disbursements and provide more accurate budget to actual information.

### Management's Response

The Town has purchased the MUNIS Requisition Module and will start using both the Requisition and Purchase Order Modules in FY 2020.

## **Compensated Absences**

### Comment

As required by Generally Accepted Accounting Principles (GAAP), the Town reports its estimated future liability for accrued sick and vacation time earned by employees (compensated absences) on its financial statements.

The Town maintains its employees' compensated absences balances in MUNIS. To obtain accurate balances for financial reporting, reports must be generated at the time the reporting is required (e.g., June 30). This report was not produced at June 30, 2018, which created significant difficulties in obtaining the appropriate compensated absence liability at June 30, 2018.

### Recommendation

We recommend that the compensated absences report be generated after the final payroll of each fiscal year.

### Management's Response

The Town will now run this report by June 30th each fiscal year as this is a time sensitive report.

## **Reconciliation of Withholdings**

### Comment

There are no procedures in place to reconcile payroll withholdings balances reported on the general ledger. Failure to reconcile these balances inhibits the Town's ability to ensure that payroll related transactions are properly recorded, summarized, and processed through the accounting information system. We identified one instance, totaling approximately \$103,000, where the health insurance withholding account was not reduced when the insurance premium payment was made. The financial statements have been adjusted to properly report this activity.

### Recommendation

We recommend management implement procedures to reconcile/verify all payroll withholding account balances monthly.

### Management's Response

The Town has implemented procedures to address this issue and have made adjustments to this account in FY 2019.